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2003

Ontario

Economic Outlook and Fiscal Review

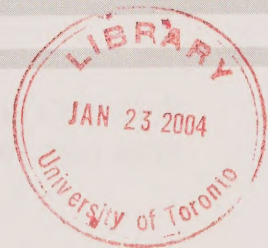
The Honourable Greg Sorbara
Minister of Finance



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Introduction

The first “fall statement” on Ontario’s economic and fiscal situation was presented to the Legislature by Robert Nixon in November 1986. Its objective was to provide information to the Legislature and the public that would facilitate the pre-budget discussion and consultations.

That spirit of innovation and openness has been restored: first, with the review of the 2003-04 fiscal situation prepared by the former Provincial Auditor, Erik Peters; and now with this document, which presents clearly the fiscal challenge the Province faces.

This document sets out the causes of the \$5.6 billion deficit faced by the Province of Ontario in 2003-04. It sets out multi-year economic forecasts and, based on these, lays out the implications for revenues and expenditures. The reality is that Ontario’s fiscal situation is not sustainable.

Fortunately, Ontario’s economy is strong and resilient. Despite the many unprecedented setbacks experienced this year, the economy has managed to grow and business and consumer confidence has remained healthy. Private-sector forecasters are optimistic that growth is rebounding and that the economy will gain momentum through 2004.

Strong public services provided on a sound and sustainable financial basis are essential to good economic growth. In recent years spending has grown rapidly while revenues have faltered. This cannot continue. The government is committed to working with Ontarians and consulting to make the difficult choices and trade-offs needed to put the Province on a sustainable fiscal course.

This document provides information that will assist in the discussion between the government and the people of Ontario that will take place leading up to the next Budget. Annex I discusses Ontario’s Economy. Annex II addresses Ontario’s Finances. Annex III provides information on Ontario’s Borrowing and Debt Management program. Annex IV provides data on Ontario’s economy.

ANNEX I

Ontario's Economy

Introduction

The Ontario economy is poised to rebound from the series of unanticipated shocks that dramatically slowed economic growth in 2003.

This annex presents the current average of private-sector forecasts for the Ontario economy for 2003 to 2006 and discusses the revenues that can be anticipated based on these forecasts.

While each forecast differs in detail, they all agree that Ontario's future prospects are brighter than this year's performance. Ontarians can look forward to a growing economy, strong job creation and rising incomes.

This future improvement, however, cannot be taken for granted. How well the economy performs will depend on both global events and on how well Ontario manages its own affairs.

Ontario is wide open to the world economy. Its growth depends to a large extent on external developments, notably the economic health of its leading trading partner, the United States, as well as the rise and fall of interest rates and movements in the Canada-U.S. exchange rate. As the experience of the past year vividly shows, the economy can also be severely affected by unanticipated shocks. The potential impact of these unexpected events underscores the need for prudence in planning.

Following a summary of the main features of the economic and revenue outlook, this annex describes the private-sector consensus view for the external environment, the outlook for the key indicators of Ontario's economic performance and the revenue outlook. The consensus projections provide a reasonable framework for budget consultations and planning. Ontario will present an updated set of planning assumptions when the 2004 Budget is introduced.

Summary

The Ontario economy suffered a number of unexpected setbacks in 2003, including the uncertainty caused by the Iraq war, Severe Acute Respiratory Syndrome (SARS), mad cow disease, the August blackout and the rapid appreciation of the Canadian dollar. The Iraq war dampened consumer and business confidence. SARS had a negative impact on the economy, especially in the second quarter with consumer spending and tourism being particularly hard-hit. The rapid rise in the Canadian dollar from 64 cents US at the start of the year to a high of over 77 cents US in December presents a challenge for Ontario's export and tourism industries. The electricity blackout on August 14 shut down power in most of Ontario for one business day and forced key industries to operate at reduced capacity during the following week. For the year as a whole, Ontario's real GDP growth slowed to an estimated 1.7 per cent, down from 3.6 per cent in 2002, in large part reflecting the negative impact of these events.

The outlook for the years ahead is brighter. While the global economy continues to face a variety of risks, recent data indicate that growth is strengthening worldwide. As the impact of temporary shocks diminishes, Ontario's economy is expected to regain momentum. Private-sector forecasters, on average, expect Ontario real gross domestic product (GDP) to grow by 3.1 per cent in 2004, 3.6 per cent in 2005 and 3.3 per cent in 2006.

Ontario Economic Highlights (Annual Average, Per Cent)

	2001	2002	2003p	2004p	2005p	2006p
Real GDP Growth	1.8	3.6	1.7	3.1	3.6	3.3
Nominal GDP Growth	2.8	5.6	4.8	4.2	5.4	5.3
Unemployment Rate	6.3	7.1	7.0	7.0	6.5	6.4
CPI Inflation	3.1	2.0	2.6	1.5	1.8	2.0

p = private-sector survey average.

Note: The number of forecasters falls from 10 in 2003 to 4 in 2006.

Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (December 10, 2003).

On the basis of private-sector consensus economic projections, Ontario can anticipate average revenue growth of about \$4.1 billion annually. This projection is based on existing federal transfer policies and the current provincial tax structure including the proposed measures incorporated in the Fiscal Responsibility Act, 2003.

U.S. Economic Outlook Improving

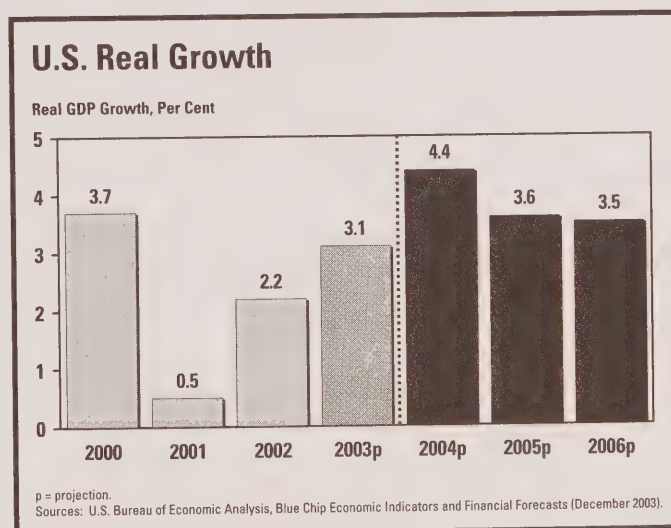
Economic conditions in the United States are a vital factor in Ontario's outlook. In 2002, U.S. consumers and businesses bought \$169 billion of goods from Ontario, which is equivalent to 35 per cent of our GDP. In addition, there were significant exports of services such as financing and transportation that are more difficult to measure accurately.

Following almost three years of sluggish growth, the American economy is improving. The U.S. economy experienced a relatively mild recession in 2001, starting in April and lasting until November. Until recently, the recovery in growth was slow and job losses mounted. In 2001 and 2002, real GDP grew by an average of only 1.3 per cent a year. Close to 2.4 million jobs vanished as businesses cut costs to survive.

As a result of business restructuring, U.S. productivity surged, rising by an average of almost five per cent a year in 2002 and 2003. These productivity gains, along with stimulative monetary and fiscal policy and the lower value of the U.S. dollar, have helped the U.S. economy to turn the corner. Growth accelerated during 2003 with output rising 8.2 per cent (at an annual rate) in the third quarter, the strongest gain in nearly 20 years. Job creation is on the rebound. U.S. payrolls rose by 57,000 positions in November and more than 300,000 net new jobs were created over the past four months.

Private-sector forecasters, on average, expect U.S. growth to improve from 3.1 per cent in 2003 to 4.4 per cent in 2004. Forecasters expect the U.S. economy to expand by an average of 3.6 per cent over 2005 and 2006.

Impressive U.S. productivity gains during the weak growth period of the past few years are unprecedented. Higher productivity has resulted in improved profit margins and higher wages. Job creation has resumed and is expected to strengthen in coming months. Improved profits have supported stock-market gains and rising household wealth. As job creation rebounds, income growth will accelerate, supporting household spending. In addition, stronger world growth and the decline in the U.S. dollar should result in an improved U.S. trade balance. Investment spending, which has lagged until recently, is likely to continue to strengthen, reflecting growing profits and the need to incorporate new technology.

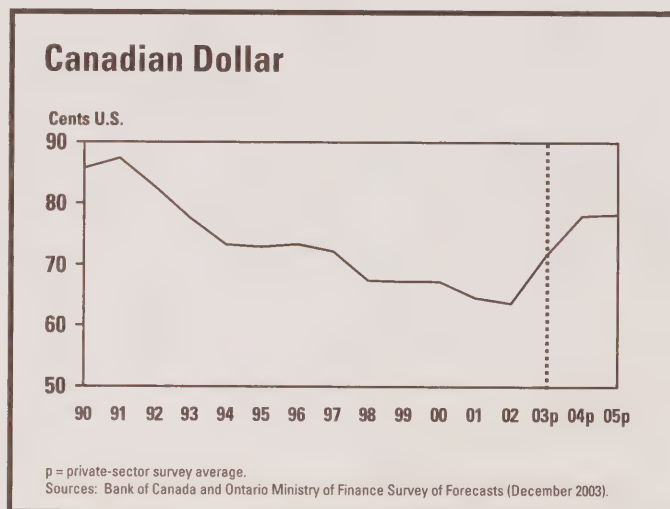


While continued growth is expected, the U.S. economy faces a number of significant challenges, including widening government deficits at both the federal and state levels, substantial current account deficits, and a still-overvalued currency. When and how these imbalances in the economy will be dealt with contributes to uncertainty about the future pace and durability of U.S. growth.

Rising Canadian Dollar

The overvalued U.S. dollar weakened against most major currencies in 2003. The Canadian dollar traded above 77 cents US in early December, up from 64 cents US at the beginning of the year. Although the Bank of Canada can exercise some control over the pace of exchange-rate movements by adjusting Canada-U.S. interest rate differentials, it cannot change the underlying direction. Because of the wide U.S. external trade deficit and massive fiscal gap, the depreciation of the U.S. dollar against other currencies is expected to continue into 2004. In contrast, Canada's current account surplus, its commitment to sustainable public finances, and rising global commodity prices, are consistent with a stronger Canadian dollar.

The dollar is expected to climb from an average of 71.4 cents US in 2003 to an average of 78.0 cents US in 2004 and 78.2 cents US in 2005. This is a serious challenge for Ontario businesses and workers, especially those in export-oriented industries. However, a higher dollar also has benefits because it lowers import costs, which increases living standards for Ontarians and encourages investment in productivity-enhancing equipment. About 60 per cent of Ontario's machinery and equipment investment is imported.



Monetary policy also plays an important role in offsetting adverse impacts of exchange-rate movements. It is very hard for exporting companies, working on modest profit margins, to adjust to substantial reductions in their revenues due to a sudden large rise in the Canadian dollar. It is expected that the Bank of Canada will take action to adjust interest rates to support the economy if the rise of the dollar threatens growth.

Low Interest Rates and Moderate Inflation

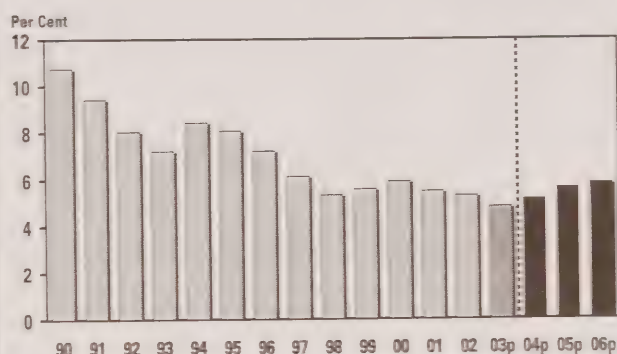
Interest rates in Canada are expected to remain low by historical standards, reflecting moderate inflation and the expected upward trend for the Canadian dollar. Early in 2003, the Bank of Canada raised interest rates 50 basis points in response to what it saw as a rising threat of inflation. As growth faltered and inflation dropped sharply, the Bank of Canada cut interest rates by 50 basis points, undoing the previous rate hikes.

Although economic growth is projected to strengthen in the near term, the Bank of Canada

is expected to hold interest rates fairly steady until the second half of 2004, with inflation remaining well below the mid-point of the Bank's target range of one to three per cent.

Beyond that point, as continued strong growth moves the economy closer to full capacity, the Bank of Canada is expected to increase short-term rates moderately to contain any inflationary pressures. Longer-term rates are also expected to rise.

10-Year Government of Canada Bond Rate



0p = private-sector survey average.

Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (December 2003).

Canadian Interest Rate Outlook (Annual Per Cent)

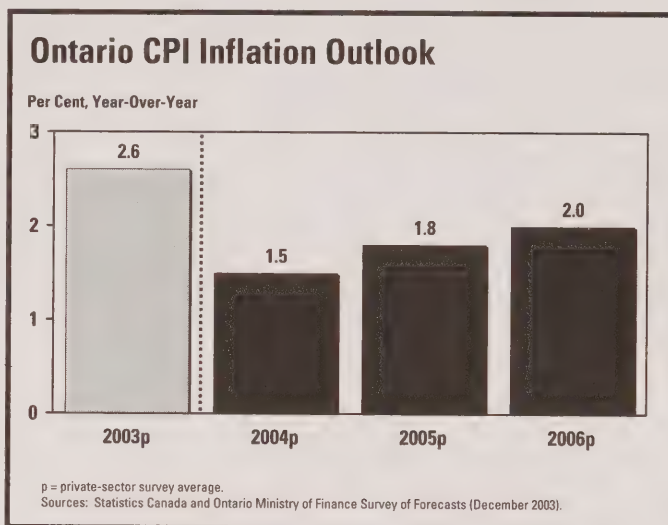
	2002	2003p	2004p	2005p	2006p
3-month Treasury Bill Rate	2.6	2.9	2.8	3.9	4.5
10-Year Government Bond Rate	5.3	4.8	5.1	5.6	5.8
CPI Inflation Rate	2.0	2.6	1.5	1.8	2.0

p= private-sector survey average.

Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (December 2003).

The outlook for relatively low nominal interest rates reflects the prospect of sustained low inflation. Ontario's consumer price inflation rate rose from 2.0 per cent in 2002 to an estimated 2.6 per cent in 2003, largely because of higher average prices for oil, natural gas and auto insurance. According to private-sector forecasters, Ontario's CPI inflation rate is projected to average 1.5 per cent in 2004, 1.8 per cent in 2005 and 2.0 per cent in 2006.

The lower annual average inflation rate projected for 2004 reflects lower oil and gas prices, continued competitive pressures to improve cost efficiencies in production, plus the government's plan to lower auto insurance premium rates. Oil prices are currently around \$29 to \$31 US a barrel, down from an average of \$36 US in February 2003. On average, forecasters expect oil to settle to \$26.50 US by the end of 2004. The potential for conflict in many of the oil-rich regions of the world creates a substantial risk to price forecasts for this important commodity.



Exposure to External Shocks

The behaviour of the U.S. economy, crude oil prices, interest rates and the exchange rate can have significant impacts on Ontario's economic performance. The table below shows the typical range for the first- and second-year impact of changes in these outside forces on the real growth of our economy.

These estimates are based on historical relationships and illustrate the upper and lower bound for the average response. The results show the implications of changes in key assumptions in isolation from changes to other external factors. In any actual situation, the combination of other circumstances can also have a substantial bearing on the outcome. The range of possible impacts reflects a variety of factors.

- For example, each percentage point increase in U.S. real growth adds between 0.3 and 0.7 percentage points to real growth in Ontario in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar reduces Ontario growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as the extent to which firms pass through lower costs for imports because of the higher Canadian dollar to prices for goods and services in Canada.

The magnitude of these shocks shows the importance of cautious planning since the growth of Ontario's economy and revenues depends critically on factors outside our control. Other unpredictable events, such as the outbreak of SARS and the power blackout in August, also underscore the need for prudent fiscal planning.

Impact of Changes in Key Assumptions on Ontario Real GDP Growth

(Percentage point change)	First Year	Second Year
Canadian Interest Rates Increase by 1 Percentage Point	-0.1 to -0.5	-0.2 to -0.6
U.S. GDP Growth Increases by 1 Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Dollar Appreciates by 5 Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by \$10 US per Barrel	-0.3 to -0.7	-0.1 to -0.5

Source: Ontario Ministry of Finance.

Business Cycles in Ontario

Recessions			Recoveries and Expansions	
Recession Quarters	Length (Quarters)	Peak-to-trough decline in real GDP	Expansion Quarters	Length (Quarters)
1954:1 - 54:2	2	-1.5%	1954:3 - 57:3	13
1957:4 - 58:2	3	-1.7%	1958:3 - 74:3	65
1974:4 - 75:1	2	-0.6%	1975:2 - 79:3	18
1979:4 - 80:3	4	-2.2%	1980:4 - 81:4	5
1982:1 - 82:3	3	-5.2%	1982:4 - 89:4	29
1990:1 - 91:1	5	-7.7%	1991:2 - 92:1	4
1992:2 - 92:3	2	-0.9%	1992:4 - 2003:2	43
Average	3	-2.8%	Average	25
Weighted by length of recession		-3.5%		

- The Ontario economy, like all economies, experiences business cycles. Turning points in economic growth have proved very hard for forecasters to predict precisely.
- Since the final quarter of 1992, Ontario has experienced its second-longest recession-free stretch of growth since the Korean War. A recession is usually defined as at least two back-to-back quarters of falling real GDP. Ontario real GDP fell 0.3 per cent in the second quarter of 2003. Whether the economy managed to rebound in the third quarter, which included the August blackout, will be known when the Ontario Economic Accounts are released in mid-January.
- Ontario economic growth was strong over the 1994 to 2000 period, averaging 4.7 per cent a year. Following the collapse of the high-tech bubble in 2000 and the terrorist attacks on September 11, 2001, real growth slowed. From 2001 to 2003, average annual growth was only 2.3 per cent.

Sensitivity of the Fiscal Outlook to Changes in Economic Assumptions

The following table shows the sensitivity of the fiscal balance to the direct impact of higher interest rates on Interest on Debt and the impact of stronger economic growth on revenues and expenditures.

Cumulative Impact of Changes in Economic Assumptions on the Ontario Fiscal Balance
(\$ Millions)

	Full Year 2004-05	Full Year 2005-06	Full Year 2006-07
Sustained 1 Percentage Point Higher Canadian Interest Rates	-175	-435	-675
Sustained 1 Percentage Point Higher Real GDP Growth	625	1,320	2,090

Notes: The interest rate sensitivity is for the debt of the Province and the Ontario Electricity Financial Corporation. These responses would hold "on average" and could vary significantly depending on the composition of change in income and expenditures.

Source: Ontario Ministry of Finance.

Growth, Jobs and Productivity

The economic performance of our trading partners, the exchange rate and interest rates, along with the attendant risks and uncertainties, set the stage for Ontario's economic and revenue outlook.

Economic growth, job creation and rising productivity go hand in hand.

Productivity rises because workers and businesses adopt new technology, new tools and better ways of doing things. Productivity rises when public infrastructure makes it easier for people to travel from their home to their workplace, for business to move goods and materials, and for energy to move reliably through wires and pipelines.

Rising productivity helps us to compete in world markets without cutting wages or profit margins. Rising productivity increases real personal incomes, fuelling the demand for consumer goods and services. It also raises business profits, providing the capacity to pay for new investment. Success in world markets and in growing domestic demand mean a growing economy.

A growing economy requires a skilled and growing labour force. Ontario's excellent colleges and universities produce graduates who are well equipped to meet the challenges of today's evolving labour market. The growth of Ontario's labour force increasingly relies on immigration. Ontario is blessed with a quality of life and a tradition of openness that has continually attracted talented and energetic people from around the world. Ontario can put this "brain gain" to work and leverage this diversity to attract investment.

Private-sector forecasters expect the Ontario economy to generate strong job growth in the years ahead.

Fair, Efficient and Effective Financial Markets Essential for Economic Growth

Fair, efficient and effective financial markets are essential if Ontario is to have a strong and vibrant economy.

Investors and publicly traded companies alike must have confidence that securities regulation in Ontario is tough, transparent and fair. Investor protection and education are central to the saving and investment that create the market liquidity that companies need to raise funds to invest and create jobs in Ontario.

Ontario's economy also benefits from Toronto's critical role as Canada's financial and head office centre. Toronto has the third-highest job level in North America for finance and insurance, behind Chicago and New York City. Over 65 per cent of financial-sector employees have degrees or college certificates, and are supported by an exceptional level of investment in information technology.

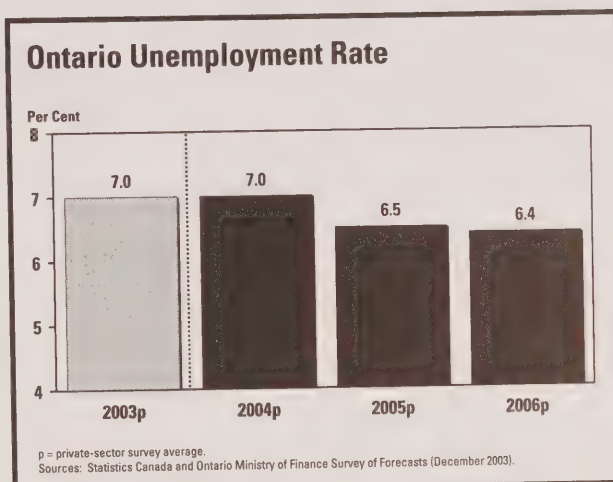
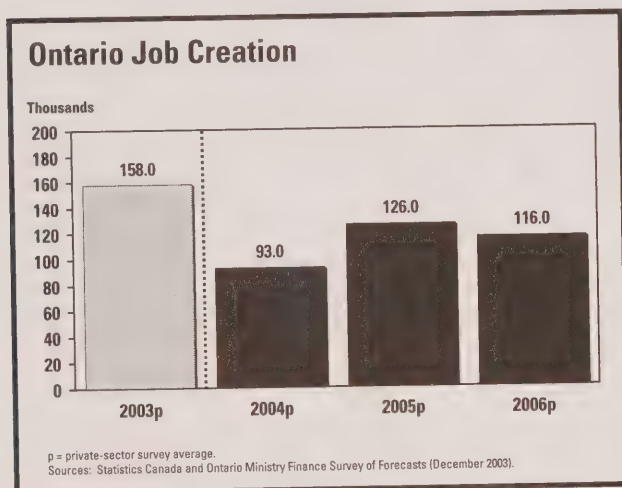
Financial services and their regulators must continuously adapt to more complex markets and new financial products if Ontario is to remain competitive internationally. The Ontario government will:

- Actively pursue the creation of a single national securities commission to enhance financial market efficiency, to cut costs for investors and companies, and to attract international investment.
- Propose technical legislative changes to clarify that investors in publicly traded trusts will not be liable for the activities of the trust.

Job Creation

Over the next three years, Ontario's working-age population is expected to grow by an average of about 150,000 people a year. This means the number of people in the labour force is likely to grow by about 105,000 a year. Strong economic growth is needed to generate jobs to employ the growing population and reduce the unemployment rate, which stood at 6.8 per cent in November 2003. Private-sector forecasters anticipate, on average, that Ontario economic performance will be strong enough to generate employment growth of about 1.8 per cent a year from 2004 to 2006, or an average of 112,000 jobs a year. This would lower the unemployment rate to 6.4 per cent in 2006.

Job creation stalled in the spring of 2003, as the economy weakened, reflecting in large part the negative impact of SARS. Job gains resumed in September. On average, job creation in 2003 is expected to reach 158,000 net new jobs.



Since a peak in August 2002, manufacturing employment in Ontario has fallen by 68,100 jobs, or 5.9 per cent. These losses were offset by gains in construction, finance and other parts of the private and public service sectors. Some of the manufacturing job losses are likely related to the rise in the Canadian dollar. Canada was one of the few industrialized countries to gain manufacturing jobs in the 1990s, most of them in Ontario. Ontario gained about 300,000 manufacturing jobs or an increase of 36.3 per cent from 1993 to 2002. Meanwhile, manufacturing employment in the United States fell by close to 1.5 million jobs, or 8.8 per cent. Ontario's strong performance reflected the gains from the free trade agreement as well as the lower exchange rate. The dollar fell from a high of over 89 cents US in November 1991 to a low of 62 cents US in February 2002.

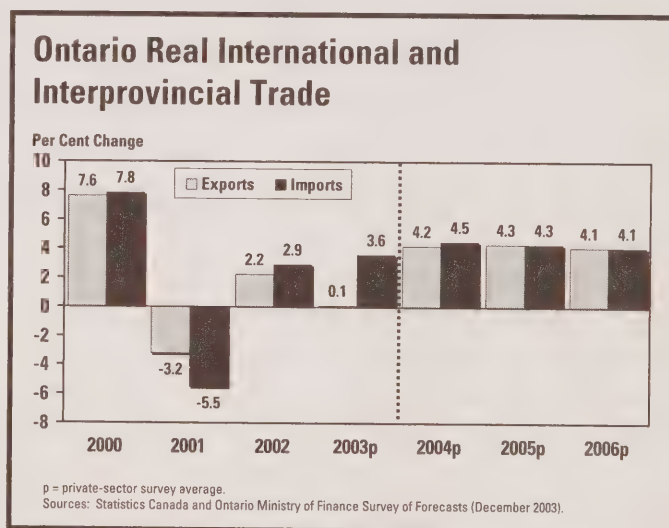
Ontario Exports Expected to Rebound

Looking forward, Ontario exporters will benefit from stronger global economic growth, particularly in the United States, the province's largest trading partner. Sales to the United States account for more than 90 per cent of Ontario international exports. The growing world economy will be particularly important as it will help Ontario industry adjust to the higher value of the Canadian dollar.

Ontario exporters faced a number of obstacles in 2003. U.S. economic growth was sluggish in the first half of the year. Much of the weakness was concentrated in demand for autos and parts (45.9 per cent of Ontario's exports to the United States), as well as machinery and equipment (15.4 per cent). The SARS outbreak affected tourist spending in Ontario during the middle of the year and the blackout in August caused a sharp reduction in exports in that month. Despite a pickup in U.S. growth in the second and third quarters, Ontario exports have been slow to recover because U.S. firms have met higher demand by running down inventories.

Once the impact of these temporary factors fades, Ontario exports are expected to grow at a solid pace even with a higher Canada-U.S. exchange rate. Forecasters expect increasing U.S. investment in machinery and equipment, a sustained healthy level of U.S. auto sales and some inventory rebuilding. As a result, Ontario real exports are projected to rise 4.2 per cent in 2004, after virtually no growth in 2003. As business adjusts to the higher level of the Canadian dollar, real exports are projected to rise by an average of 4.2 per cent in 2005 and 2006.

U.S. investment in machinery and equipment picked up sharply earlier this year, driven by replacement capital needs following two years of weak business investment spending. Forecasters expect machinery and equipment investment spending to jump by more than 10 per cent in 2004 and by an average of nearly 8 per cent in 2005 and 2006. U.S. auto sales are expected to remain close to 17 million units a year over the next three years, near historic high levels.



Ontario Household Spending Robust

Ontario spending on housing and consumer goods and services remained very healthy in 2003, partially offsetting the weakness in the external economy. Low interest rates, rising incomes and increasing wealth due to rising home values and stock-market gains have supported strong growth in household spending.

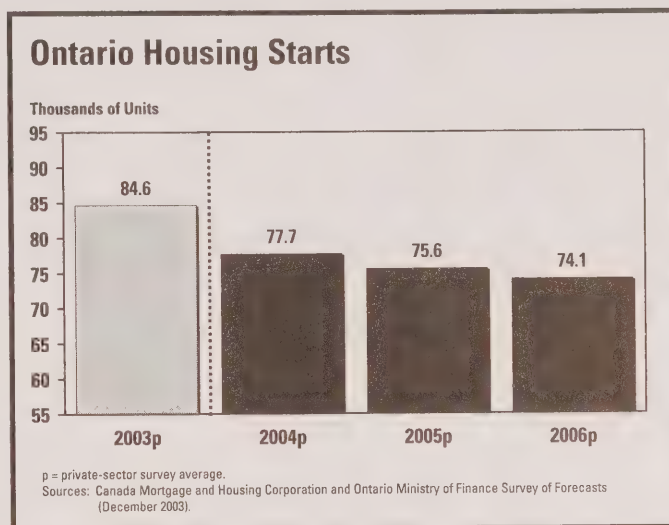
Ontario's housing market continued to shine in 2003. Low mortgage rates and rising incomes have helped keep housing affordable for Ontario's growing population. Ontario housing starts are on track to reach 84,600 units in 2003, up from 83,600 in 2002. This would be the highest level since 1989. In coming years housing starts are projected to slow, but still to remain at robust levels. Housing market activity over the medium term will be supported by low interest rates and healthy levels of immigration.

Five-year mortgage rates are currently 6.5 per cent, up from a low of 5.8 per cent in June. The

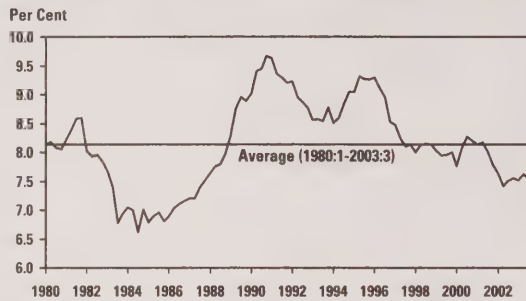
five-year rate is expected to move up to an average of 7.0 per cent in 2005 and 7.4 per cent in 2006. Negotiated mortgage rates can be one to one-and-a-half percentage points below posted rates.

Ontario's resale home market is headed towards record sales in 2003. So far this year, Ontario home resales are up 3.4 per cent from the same period a year earlier. For the year as a whole, an all-time high of over 180,000 homes are expected to change hands, with prices rising close to eight per cent. Even though some softening in home sales is expected, the level of activity is forecast to remain high over the next three years.

Led by buoyant housing-related expenditures, real consumer spending is expected to rise by 3.8 per cent in 2003 and 3.6 per cent in 2004. Furniture and appliance store sales are up 8.6 per cent over the first nine months of 2003. Spending growth will be supported by low interest rates, steady income gains and strong consumer confidence. The increased value of the Canadian dollar is one of the factors boosting consumers' spending power because imported goods are becoming cheaper.

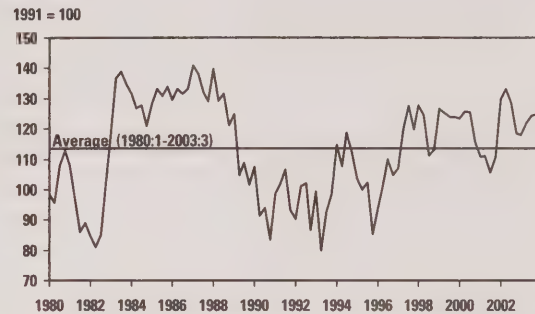


Canadian Household Debt Interest Costs (Per Cent of Personal Disposable Income)



Sources: Canadian Department of Finance and Statistics Canada.

Ontario Consumer Confidence



Source: Conference Board of Canada.

Although household debt levels have continued to rise, the cost of carrying that debt is low by historical standards. The ratio of Canadian household debt costs to personal disposable income was 7.5 per cent in the third quarter of 2003, below the average 8.1 per cent over the 1980 to 2003 period. The reasons for this are low interest rates and higher personal income. Furthermore, rising house values and an improvement in the stock market have bolstered household wealth. Healthy household finances are expected to sustain solid consumer spending over the forecast period.

Low interest rates and strong income gains also helped Ontario consumers remain confident in the face of setbacks such as SARS and the electricity blackout. Ontario consumer confidence has climbed in recent months and is currently 10.0 per cent higher than the average over the 1980 to 2003 period.

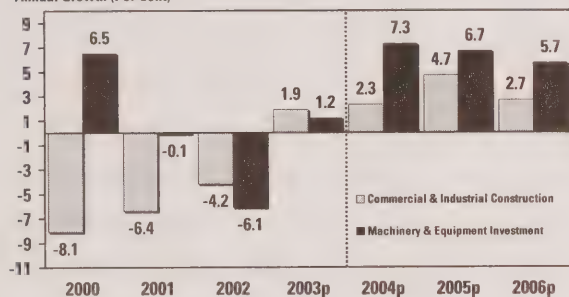
Personal income is expected to rise by 3.6 per cent in 2003. According to private-sector forecasters, continued moderate wage gains and a pickup in the pace of job creation will lead to personal income growth of 4.4 per cent in 2004. Solid consumer spending growth is expected to continue over 2005 and 2006, with real consumption projected to rise by an average 3.5 per cent a year, supported by average income gains of 5.3 per cent or 3.4 per cent when adjusted for inflation.

Investment Turnaround

Business investment in plant and equipment has been weak since the high-tech bubble burst in 2000. Recently, a recovery in business investment has started to take shape and is expected to continue, reflecting improving underlying demand conditions, rising profits, stock-market gains and healthy balance sheets. Ontario corporation profits are projected to increase by 11.5 per cent in 2003. In addition, the higher dollar has lowered the cost of investing in machinery and equipment. About 60 per cent of capital equipment used by Ontario businesses is imported.

Real Business Investment

Annual Growth (Per Cent)

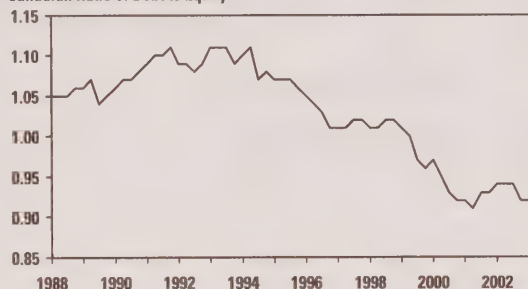


p = private-sector survey average.

Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (December 2003).

Business Balance Sheets Are Strong

Canadian Ratio of Debt to Equity



Source: Statistics Canada.

To remain profitable with the higher-valued Canadian dollar and unrelenting competitive pressures, business in Ontario will concentrate on investments that incorporate the best technology and boost productivity. This investment in new productive capacity also helps transform new ideas into the innovative goods and services that succeed in local and global markets, and expands the long-term ability of Ontario's economy to grow and prosper. The private-sector projection of future investment growth rates is shown in the chart above.

Investment will be supported by competitive corporate income tax rates. The combined federal and provincial general corporate income tax rates in Ontario will be about 36 per cent in 2004 compared to the current average of about 40 per cent in the United States. In addition to competitive tax rates, employers in Ontario benefit from publicly funded health care, which is a major expense for employers in the United States.

The table below shows the current average private-sector forecast for Ontario through 2006.

The Ontario Economy, 2001 to 2006						
(Per Cent Change)	Actual		Forecast			
	2001	2002	2003p	2004p	2005p	2006p
Real Gross Domestic Product	1.8	3.6	1.7	3.1	3.6	3.3
Personal consumption	2.4	3.6	3.8	3.6	3.6	3.3
Residential construction	9.2	9.6	3.1	-0.6	-0.1	0.8
Non-residential construction	-6.4	-4.2	1.9	2.3	4.7	2.7
Machinery and equipment	-0.1	-6.1	1.2	7.3	6.7	5.7
Exports	-3.2	2.2	0.1	4.2	4.3	4.1
Imports	-5.5	2.9	3.6	4.5	4.3	4.1
Nominal Gross Domestic Product	2.8	5.6	4.8	4.2	5.4	5.3
Other Economic Indicators						
Retail sales	2.6	5.6	3.8	4.7	4.8	4.7
Housing starts (000s)	73.3	83.6	84.6	77.7	75.6	74.1
Personal income	3.6	3.5	3.6	4.4	5.4	5.2
Wages and salaries	3.7	4.5	4.0	4.7	5.6	5.2
Corporate profits	-11.5	16.7	11.5	4.8	5.3	6.8
Consumer Price Index	3.1	2.0	2.6	1.5	1.8	2.0
Labour Market						
Employment	1.5	1.8	2.6	1.5	2.0	1.8
Job creation (000s)	91	105	158	93	126	116
Unemployment rate (per cent)	6.3	7.1	7.0	7.0	6.5	6.4

p = private-sector survey average.

Notes: The number of forecasters falls from 10 in 2003 to 4 in 2006.

Forecasters differ in the number of variables they project.

Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (December 10, 2003).

The Economic Outlook and Revenues

A growing economy with rising incomes and spending also generates growing revenues that are required to pay for public services. Projected revenues are shown in the following table.

Revenue (\$ Billions)					
	Actual	Projection			
	2002-03	2003-04	2004-05	2005-06	2006-07
Taxation Revenue					
Personal Income Tax	18.2	18.6	20.0	21.6	23.1
Retail Sales Tax	14.2	14.6	15.5	16.6	17.6
Corporations Tax	7.5	7.2	8.2	8.6	9.0
All Other Taxes	9.7	9.6	10.1	10.6	10.9
Total Taxation Revenue	49.6	49.9	53.8	57.3	60.7
Government of Canada	8.9	10.3	10.1	10.6	10.7
Income from Government Enterprises	3.9	3.4	3.7	4.0	4.2
Other Non-tax Revenue	6.2	5.9	5.9	6.0	6.0
Total Revenue	68.6	69.5	73.5	77.9	81.7

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Based on the consensus private-sector forecast, Ontario revenues are expected to total \$73.5 billion in 2004-05, an increase of \$4 billion from 2003-04. Over the next three fiscal years (including 2004-05), the average annual increase in total revenue that can be expected—based on the current structure of taxes and other revenues—is \$4.1 billion per year. As discussed in Annex II, this revenue growth alone will not be sufficient to eliminate the structural deficit that Ontario faces.

Personal Income Tax (PIT) revenue is expected to grow, on average, by 7.5 per cent annually over the medium term. This is consistent with the average private-sector forecast for growth in jobs, wages and incomes in the Ontario economy. PIT revenues grow at a rate faster than incomes because of the progressive structure of the income tax system. This means that individuals with higher real incomes pay proportionately more tax.

Retail Sales Tax (RST) revenues increase by an average of 6.6 per cent a year. Robust household spending is reflected in the forecast for retail sales growth in the Ontario economy. Business spending will also contribute to RST revenue growth since many business inputs are subject to the RST.

Corporations Tax, which includes the Corporate Income Tax, Capital Tax and Insurance Premiums Tax, increases as corporate profits and investment spending grow. This revenue growth reflects the proposed measures contained in the Fiscal Responsibility Act, 2003 to return tax rates to pre-2003 levels.

Recent preliminary indications from Ontario Power Generation Inc. (OPG) suggest that there may be a substantial risk to the net income of OPG in the medium term. This substantial risk could potentially negatively impact both Income from Government Enterprises and Electricity Payments-In-Lieu of Taxes in the government's medium-term revenue outlook by a combined \$250 million to \$900 million a year between 2004-05 and 2006-07.

Further details of the outlook for Ontario's revenues, including federal transfers and other non-tax revenues, are contained in Annex II: Ontario's Finances.

Conclusion

Private-sector forecasters expect strengthening economic growth for Ontario and this provides the basis for the projected increase in revenues.

Annex II incorporates these revenue forecasts into a discussion of the fiscal outlook.

ANNEX II

Ontario's Finances

Introduction

In October 2003, the Premier-designate asked former Provincial Auditor, Mr. Erik Peters, to conduct an independent review of the Province's finances. The *Report on the Review of the 2003-04 Fiscal Outlook*, released that same month, confirmed that Ontario faced a potential deficit of \$5.6 billion for 2003-04. This report also identified risks to the fiscal outlook of up to \$1 billion that could cause the potential deficit to worsen by year-end.

While the Province's finances are complex, the source of the deficit is clear. Provincial spending has been growing much more quickly in recent years than revenue. In the last three years, program spending has increased by over \$10 billion, while tax revenues have increased by half a billion dollars. As a result, Ontario now faces a structural deficit that threatens the ability of the Province to balance the budget and to provide acceptable levels of services to the public into the future.

The current government has repeatedly stated its intention to pursue an agenda of improving public services, measuring the results of improved services, and placing such key sectors as health care and education on a sound financial footing, in a fiscally responsible manner. In light of the severity of the current fiscal situation it inherited, the government will need to make difficult fiscal choices and trade-offs.

This annex:

- **Section I:** Provides an overview of Provincial finances;
- **Section II:** Outlines the nature of the fiscal challenge facing the Province and the need for a sustainable fiscal policy;
- **Section III:** Provides the fiscal outlook for the Province for 2003-04, including highlights of Ontario's 2003-04 revenue and expense outlook; and
- **Section IV:** Provides a medium-term fiscal projection for the Province, assuming no further policy changes, as well as high-level options for balancing the budget.

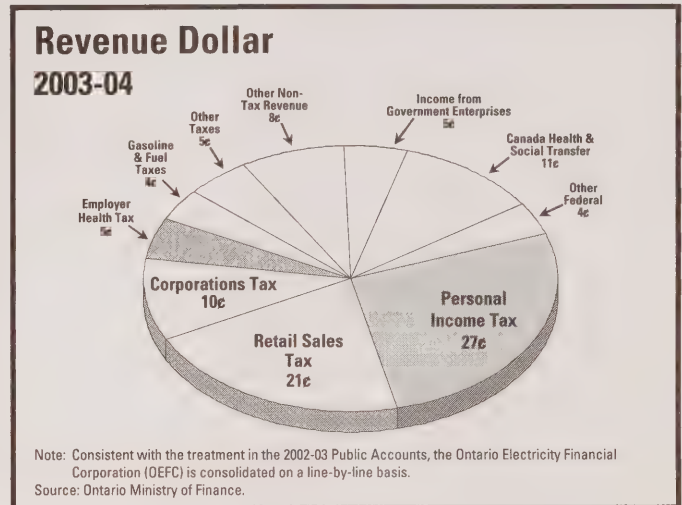
Section I: Overview of Provincial Finances

STRUCTURE OF ONTARIO'S FINANCES

Composition of Revenue

Ontario's total revenue in 2003-04 is forecast to be \$69.5 billion. Major categories of Provincial revenues include Taxation, Income from Government Enterprises, payments from the Government of Canada and Other Non-Tax Revenues.

Taxation revenues comprise the largest category of revenue for the provincial government. Of the \$69.5 billion in Provincial revenue expected in 2003-04, \$49.9 billion or about 72 per cent is expected to be derived from taxation revenue. Three revenue sources within this category—Personal Income Tax, Retail Sales Tax and Corporations Tax—account for 58 per cent of total revenue. The Province also collects a number of other taxes such as Gasoline and Fuel Taxes, Tobacco Tax, Employer Health Tax and Land Transfer Tax.



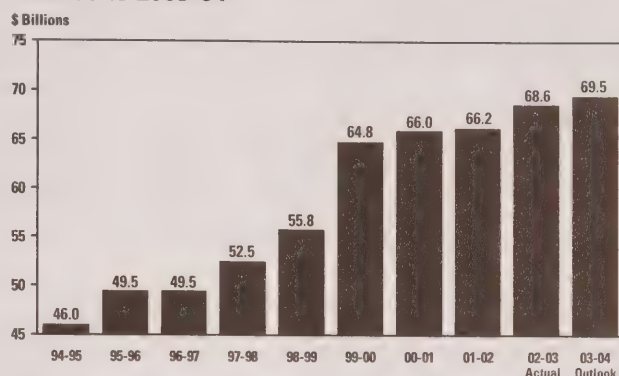
In 2003-04, the Province is forecasting payments from the Government of Canada totalling \$10.3 billion. The federal government makes most of these payments through the Canada Health and Social Transfer (CHST), which supports a number of areas of Provincial spending, notably health care, post-secondary education and social services. Federal transfers represent 15 per cent of Ontario's revenue forecast for 2003-04.

Income from Government Enterprises, including the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation, is forecast to be \$3.4 billion this year. These revenue sources represent 5 per cent of total Provincial revenue.

In 2003-04, the Province expects to collect \$5.9 billion in Other Non-Tax Revenue. These revenues cover a wide range of government activities and are largely from fees, permits, sales and rentals, and reimbursements for services the Province provides. Other Non-Tax Revenues represent 8 per cent of total Provincial revenue in 2003-04.

The revenue performance chart highlights growth in total revenue from 1994-95 to 2003-04. After increasing dramatically in the second half of the 1990s, due in part to strong economic growth, revenue growth has weakened in recent years. This reflects slower economic growth since 2000 and the impact of tax cuts.

Revenue Performance 1994-95 to 2003-04



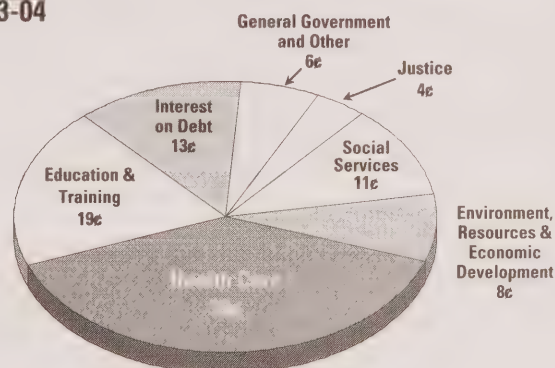
Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFPC) is consolidated on a line-by-line basis starting in 1999-00.
Source: Ontario Ministry of Finance.

Composition of Expense

In 2003-04, it is estimated that total Provincial expense will amount to \$75.2 billion. About 70 per cent of all Provincial spending is on social programs including health, education and social services, with the balance allocated for economic development, justice, interest costs on the debt, and other government activities.

While the Province supports a wide range of services to the public, funding for health care and education accounts for the largest share of spending. In 2003-04, health care spending at \$29.0 billion is expected to account for 39 per cent of total Provincial spending. Education and Training, which includes Provincial spending in support of school boards and provincial grants for colleges, universities and training, totals \$14.2 billion or 19 per cent. Funding for social services including children's services, Ontario Works, and the Ontario Disability Support Program, represents \$8.2 billion or 11 per cent.

Total Expense Dollar 2003-04



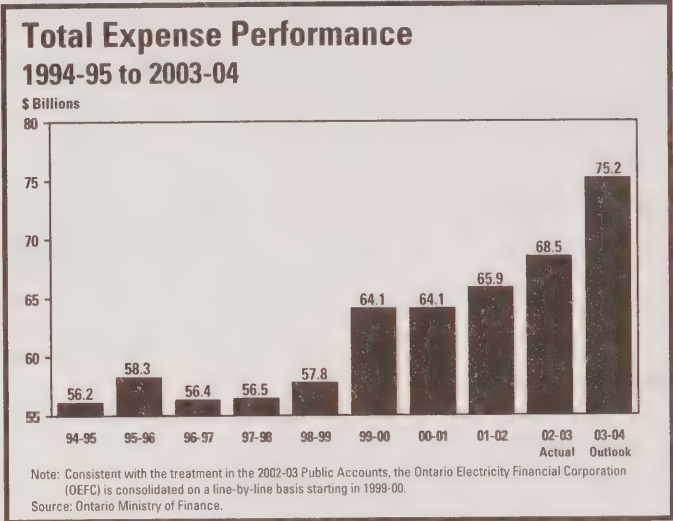
Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFPC) is consolidated on a line-by-line basis.
Source: Ontario Ministry of Finance.

In 2003-04, Provincial spending on the environment, resources and economic development will comprise \$5.9 billion or 8 per cent of total spending. This total also includes spending on government priorities such as transportation, agriculture and energy. The Justice sector, including the Ministry of the Attorney General and the Ministry of Community Safety and Correctional Services, represents \$2.9 billion or 4 per cent of Provincial spending.

General Government and Other comprises ministries such as Management Board Secretariat and the Ministry of Finance that take a central or corporate role in providing government services and policy advice. In 2003-04, General Government spending at \$4.9 billion is expected to account for 6 per cent of total Provincial expense.

In 2003-04, interest costs on Ontario's net debt, estimated at \$139 billion, will amount to \$10 billion, or 13 per cent of total spending.

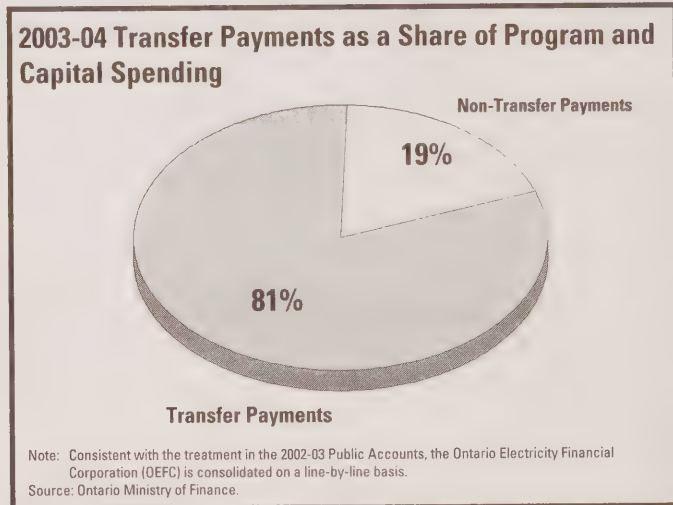
The expense performance chart highlights growth in total spending from 1994-95. Total spending has increased dramatically in recent years.



Provincial Expense: Transfers and Direct Spending

More than 80 per cent of total Provincial spending, excluding interest on debt, is in the form of transfer payments to organizations and individuals. Provincial transfer payments support key organizations and agencies within the broader public sector, such as hospitals, school boards, colleges and universities, as well as individuals who receive payments such as social assistance or the Guaranteed Annual Income System (GAINS).

Non-transfer payment spending, including Provincial spending for programs and services delivered directly by the Ontario government itself, such as courts, correctional services and policing services provided by the Ontario Provincial Police, represents the remaining 19 per cent of Ontario's spending on programs and capital.



In 2003-04, the five largest transfer payment programs alone will account for about \$33 billion or more than half of Ontario's program spending.

Ontario's Five Largest Transfer Payment Programs	2003-04	
	(\$ Billions)	Per cent of Program Spending
Operation of Hospitals	10.5	16.8
School Board Operating Grants	9.4	15.0
OHIP Payments to Physicians and Practitioners	6.8	10.8
Ontario Disability Support Program and Ontario Works	3.8	6.1
Drug Programs*	2.8	4.5
Total	33.3	53.3

* Drug Programs includes \$2.3 billion in Ministry of Health and Long-Term Care and \$0.5 billion in Ministry of Community and Social Services.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

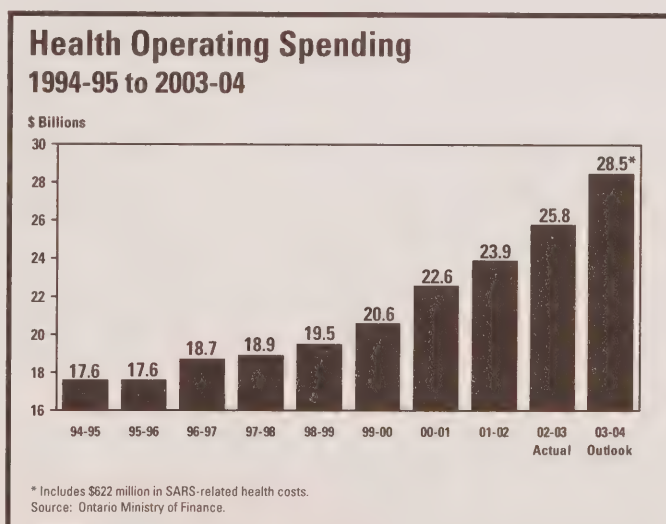
RECENT TRENDS AND COST DRIVERS IN PROVINCIAL SPENDING

Rising Health Care Costs

While increasing demands exist in many program areas, the single most significant source of upward pressure on Provincial spending is health care. Increasing demands for health care services and rapidly rising costs are affecting all provinces in Canada. Over the past five years, Ontario's health care operating spending has increased at an average annual rate of about 8 per cent. This is twice the rate of growth in total Provincial spending, excluding health care, of about 4 per cent during the same period.

As a result of this rapid growth, health care has been consuming an increasing share of Provincial spending. In 1994-95, total health care spending accounted for 32 per cent of Provincial spending and this year, health care will account for 39 per cent.

Health care now accounts for 46 per cent of Provincial program spending, excluding capital and interest on debt, clearly illustrating the extent to which increased health care costs are limiting options in other program areas. The composition of Provincial program expense by sector can be found in the tables and graphs section to this annex.



The cost of providing health care services is driven by many factors including the demographic pressures of an aging population, labour costs and rapid technological change. Ontario's seniors currently make up close to 13 per cent of the population, but account for about 50 per cent of Provincial health spending.

Demographic trends indicate that the proportion of the population aged 65 and over will increase significantly in the future. Over the next 25 years, the seniors' population in Ontario is expected to rise from 1.5 million in 2003-04 to almost 3.2 million in 2028. A shortage of health professionals in Ontario and other jurisdictions, combined with the highly labour-intensive nature of health care delivery, has resulted in upward wage pressures in recent years. These shortages are most acute in nursing and certain medical specialties. In addition, new technologies and better diagnostic procedures, which improve the quality and length of life, are placing additional costs on the health care system.

Compensation Costs

The programs and services delivered by the provincial government and Ontario's broader public sector (BPS) are provided by a variety of people, including doctors, nurses, teachers and civil servants. More than 80 per cent of Provincial spending, excluding interest on debt, is in the form of transfer payments to individuals and BPS partners, such as hospitals, schools, colleges and universities. Furthermore, within major areas of the broader public sector itself, typically about 75 per cent of operating costs are related to salaries and benefits.

As a result, compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of BPS partners and the Province.

Examples of Potential Compensation Costs

Sector	Cost of 1% salary increase	Size of Sector
OHIP Payments to Physicians	\$58 million	Over 21,000 physicians in Ontario, comprising 10,000 family doctors and 11,000 specialists.
Hospital Nurses	\$34 million	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff	\$115 million*	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service	\$45 million	Over 60,000 public servants.

* One per cent increase to salary benchmarks in Student-Focused Funding formula.

Source: Ontario Ministry of Finance.

Depending on the magnitude of upcoming wage settlements, higher compensation costs could produce upward pressures on Provincial finances directly and on the broader public sector, which may rely on Provincial financial support.

Section II: The Need for a Sustainable Fiscal Policy

While governments and households are dissimilar in many ways, both must live within their means. A household that spends more each month than it takes home in pay can get by for a while by running down savings or borrowing from a line of credit. Governments can do the same. But for both, what works in the short run may lead to problems in the long run. Savings accounts run out, eventually limits on lines of credit are exhausted, and carrying costs increasingly eat into budgets.

The only sustainable approach in the long run both for households and for governments is to keep spending in line with income. Aligning spending and revenue as closely as possible, and including prudent measures such as a budgetary reserve to help ensure that a fiscal plan can accommodate unexpected shocks, creates a sustainable fiscal policy. This is the way that governments live within their means.

This approach is good for governments, its transfer partners and for citizens. Hospitals, school boards and other organizations that rely on Provincial transfers can plan better, because their funding is more likely to be predictable and stable. Ontarians can feel more confident because the prudence built into the plan will help their government avoid pressures for tax increases, additional borrowing or service cuts if conditions change suddenly and adversely.

By recognizing the need to keep spending in line with revenue, a sustainable fiscal policy is based on the premise of a balanced budget. Deficits are funded through borrowing, and rising government debt eventually affects everyone. While governments can generally borrow at relatively low interest rates, interest costs reduce amounts available to governments for other spending. Chronic deficits seriously weaken a government's ability to provide programs and services.

The challenge for governments everywhere in the developed world is to meet the needs of citizens as pressures grow for more health care and better education. At the same time, there is an expectation that taxes will not increase and governments will avoid deficits.

This has led to a shift in the way that governments operate: increasingly, the focus is on the results of spending. This shift recognizes that it is not just how much that is spent that matters. It is equally important to measure what the spending has achieved for society as a whole, in terms of key outcomes such as literacy and numeracy rates.

ONTARIO'S FISCAL IMBALANCE

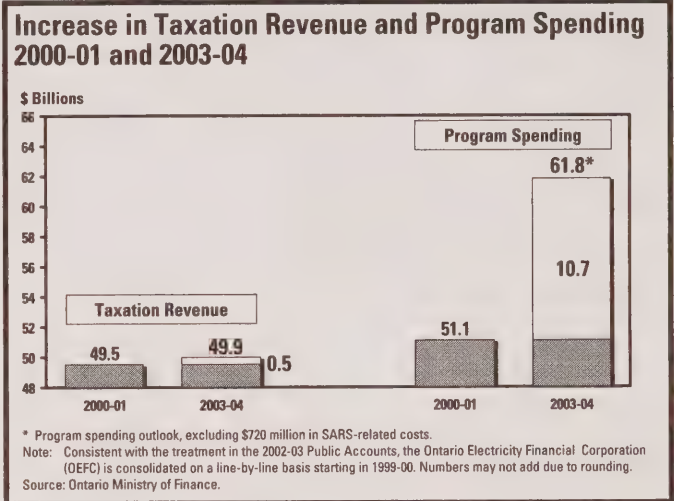
As noted, the Peters Report identified a potential deficit of \$5.6 billion for 2003-04. Many of the factors that produced this \$5.6 billion deficit are structural, or permanent in nature, and unless action is taken will affect the Province for years to come.

The rapid growth in spending in recent years, combined with the impact of tax cuts on base revenue growth, has produced a fiscal situation that is not sustainable. This year the results of these past policies are clear: the Province is spending considerably more than it collects in revenue. To put it simply, the Province is not living within its means.

The Province earns revenue in different ways: taxation revenue, fees and licences, earnings from Provincially owned enterprises, and transfers from the federal government. Of these sources, taxation revenues, such as Personal Income Tax and Retail Sales Tax revenues, are the largest and best support for ongoing Provincial spending on necessary programs and services.

In 2000-01, when Ontario's budget was balanced, taxation revenues at \$49.5 billion, were almost equal to Ontario's program spending of \$51.1 billion. Since 2000-01, however, tax revenues have increased marginally by half a billion dollars as the impact of a slowing economy on Provincial revenue was further aggravated by Provincial tax cuts. Over the same period, spending on Provincial programs increased by over \$10 billion.

While these past spending increases were often for priorities—higher spending on health care, for example—the Province's revenue base could not support these higher levels of spending and tax cuts at the same time. By 2003-04, Provincial spending and the Province's tax base were fundamentally and structurally misaligned.



Section III: 2003-04 Fiscal Outlook

2003-04 FISCAL SUMMARY

Ontario is currently projecting a deficit of \$5,621 million for 2003-04. The current fiscal outlook for 2003-04 reflects changes in the accounting treatment of the Ontario Electricity Financial Corporation (OEFC) consistent with the recently released 2002-03 Public Accounts and the recommendation of the Peters Report, as well as the impact of recent revenue and expense measures announced by the government that are highlighted in the appendix to this annex.

2003-04 Fiscal Outlook (\$ Millions)

	Actual 2002-03	Outlook 2003-04	Change	
			\$ Millions	Per cent
Revenue	68,609	69,532	923	1.3
Expense				
Programs	56,922	62,554	5,632	9.9
Capital	1,876	2,574	698	37.2
Interest on Debt	9,694	10,025	331	3.4
Total Expense	68,492	75,153	6,661	9.7
Surplus / (Deficit)	117	(5,621)	(5,738)	--

Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFC) is consolidated on a line-by-line basis.

Source: Ontario Ministry of Finance.

- Total revenue is projected at \$69,532 million in 2003-04, up \$923 million from the 2002-03 level. This increase is primarily due to higher federal payments and a modest increase in tax revenue, partially offset by lower income from government enterprises and other non-tax revenue.
- Total expense in 2003-04 is projected at \$75,153 million, an increase of \$6,661 million from the 2002-03 level of \$68,492 million. This increase in expense is primarily due to higher levels of spending for health care, education, the post-secondary sector and infrastructure.

2003-04 REVENUE OUTLOOK

Revenue is projected to be \$69,532 million in 2003-04, an increase of \$923 million from last year's level of \$68,609 million. The increased revenues this year are primarily due to higher transfers from the federal government and a small increase in taxation revenues.

Revenue by Source				
(\$ Millions)				
	Actual	Outlook	Change	
	2002-03	2003-04	\$ Millions	Per cent
Taxation Revenue				
Personal Income Tax	18,195	18,600	405	2.2
Retail Sales Tax	14,183	14,550	367	2.6
Corporations Tax	7,459	7,215	(244)	(3.3)
All Other Taxes	9,714	9,582	(132)	(1.4)
Total Taxation Revenue	49,551	49,947	396	0.8
Government of Canada	8,894	10,264	1,370	15.4
Income from Government Enterprises	3,942	3,434	(508)	(12.9)
Other Non-Tax Revenue	6,222	5,887	(335)	(5.4)
Total Revenue	68,609	69,532	923	1.3

Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFEC) is consolidated on a line-by-line basis.

Source: Ontario Ministry of Finance.

- The 2003-04 Taxation revenue forecast is based on the consensus economic forecast presented in Annex I, and tax collection and assessment information available through the end of October 2003. Total taxation revenues are expected to be \$396 million, or 0.8 per cent higher than in 2002-03.
- Personal Income Tax (PIT) revenues are projected to grow only 2.2 per cent in 2003-04. While underlying PIT revenue growth is consistent with current estimated wages and salaries growth, the 2003-04 PIT total has been adjusted downward, based on recent 2002 assessment information obtained after the 2002-03 Public Accounts were finalized, to correct for an overestimate of past PIT revenues.
- Retail Sales Tax (RST) revenues are expected to grow 2.6 per cent in 2003-04. This relatively modest growth reflects the underlying consensus economic forecast for 2003 retail sales growth and the estimated impact of tax measures during 2003-04.
- Corporations Tax (CT) revenues are expected to decline 3.3 per cent in 2003-04. This is primarily due to weaker net receipts in respect of past years than previously estimated. The underlying CT revenue base growth is consistent with the outlook for corporate profits growth of 11.5 per cent in 2003.

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- All other sources of taxation revenue combined are expected to decline by 1.4 per cent in 2003-04, reflecting tax collections to date and the 1.7 per cent pace of real economic growth expected for 2003.
 - Federal Payments are expected to increase by \$1,370 million in 2003-04. This is the result of increased federal support for a wide range of Provincial programs and policy initiatives, largely in the health care sector, and \$330 million in federal SARS relief.
 - Income from Government Enterprises is expected to decline by \$508 million in 2003-04. This is largely due to the lower combined net income expected from Ontario Power Generation Inc. (OPG) and Hydro One Inc. (HOI) resulting from lower electricity demand and the August 2003 blackout. The net income of the Ontario Lottery and Gaming Corporation (OLGC) is expected to decline in 2003-04 as gaming activity was adversely affected by SARS, the August blackout, security-related border crossing slowdowns, the depreciation of the U.S. dollar and increasing cross-border competition.
 - Other Non-Tax Revenues are expected to decline by \$335 million in 2003-04. This is largely due to one-time revenues included in 2002-03, such as the fee earned in the Bruce Nuclear Plant transaction.

2003-04 EXPENSE OUTLOOK

The expense outlook at \$75,153 million in 2003-04 is up \$6,661 million from the level recorded in 2002-03. Increased spending was concentrated in health care, education, the post-secondary sector and infrastructure.

Expense by Sector				
(\$ Millions)				
	Actual	Outlook	Change	
	2002-03	2003-04	\$ Millions	Per cent
Programs				
Health Care	25,758	28,507	2,749	10.7
Education	9,236	10,127	891	9.6
Post-Secondary Education	3,471	3,996	525	15.1
Social Services	7,821	8,154	333	4.3
Justice	2,955	2,814	(141)	(4.8)
Other Programs	7,681	8,956	1,275	16.6
Total Programs	56,922	62,554	5,632	9.9
Capital	1,876	2,574	698	37.2
Interest on Debt	9,694	10,025	331	3.4
Total Expense	68,492	75,153	6,661	9.7

Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFEC) is consolidated on a line-by-line basis.

Source: Ontario Ministry of Finance.

- In 2003-04, health care program spending will be \$28.5 billion, an increase of \$2.7 billion from the previous year's level of \$25.8 billion. Within the health care budget, major areas of spending include \$10.5 billion in operating support to Ontario's 154 hospitals and \$6.8 billion in OHIP payments to physicians and other service providers. The remaining \$11.2 billion in health care spending supports a wide range of services, including funding for drug programs, long-term care facilities and community services and SARS-related health costs.
- Education spending will be \$10.1 billion this year, an increase of almost \$900 million from the 2002-03 level of \$9.2 billion. This level of funding includes \$9.4 billion in Provincial grants to school boards for elementary and secondary education, including \$71 million for the 2003-04 fiscal year portion of a recently announced \$112 million initiative to provide supports for students from low-income and single-parent families and recent immigrants. In the 2003-04 school year, total funding for school boards, including education property tax revenues that flow directly to school boards, will increase to \$15.4 billion.

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- Provincial support for training programs and Ontario's 43 provincially funded post-secondary education institutions, will amount to \$4.0 billion in 2003-04, an increase of over \$500 million from last year. This funding includes \$0.8 billion in operating grants to colleges and \$2.1 billion in operating grants to universities, as well as \$0.3 billion for student financial assistance through the Ontario Student Support Program, scholarships and bursaries. In addition, \$0.3 billion will be spent on apprenticeship and skills training programs.
 - In 2003-04, spending on social services will be \$8.2 billion, an increase of \$333 million from last year. This includes \$3.8 billion to provide financial assistance to 190,000 individuals and families through the Ontario Works program as well as financial and employment assistance to 220,000 persons with disabilities and their families through the Ontario Disability Support program. In addition, approximately \$1.0 billion is spent to provide various specialized community supports such as counselling and behaviour intervention to 48,000 individuals with developmental disabilities. Other major components of spending in the social services sector include \$1.0 billion on child protection services delivered by 52 children's aid societies.
 - The Justice sector, comprising the Ministry of the Attorney General and the Ministry of Community Safety and Correctional Services, will spend \$2.8 billion in 2003-04. This funding will support the operation of 40 provincial jails and detention centres, housing an average of about 8,700 offenders each day, and the supervision of another 80,000 offenders serving sentences in the community. Other key justice sector programs and services include legal aid and victims' services, the funding of about 5,000 Ontario Provincial Police officers across the province and the operation of over 250 courts, prosecuting about 500,000 charges a year.
 - In 2003-04, spending on all other Provincial programs will be \$9.0 billion. This represents an increase of \$1.3 billion from the 2002-03 level, and is mainly due to the establishment of a \$625 million Contingency Fund in 2003-04, consistent with recommendations from the Peters Report, and an increase of \$233 million in Provincial retirement benefits costs.
 - Ontario's capital expense will amount to \$2.6 billion in 2003-04. Capital spending includes \$1.5 billion in capital transfers to partners such as hospitals, community health and long-term care facilities, and municipalities; \$0.3 billion for repairs and maintenance and other capital investments; as well as \$0.8 billion for amortization costs on major Provincial tangible capital assets (mainly highways and buildings).

Other Potential Liabilities

Since the release of the Peters Report, a number of other potential liabilities have come to the attention of the government. These liabilities may have an impact on the 2003-04 deficit but were outside the scope of Erik Peters' mandate and as such, any fiscal impact of these potential liabilities is not reflected in the \$5.6 billion deficit outlook he confirmed.

The government is currently reviewing these potential liabilities to determine how best to deal with these issues in a fiscally responsible manner. The table below provides a few examples of potential liabilities that have been identified to date.

Potential Liability	Fiscal Impact
Hospitals Accumulated Working Capital Shortfalls	up to \$1.2 billion
Pension Benefits Guarantee Fund (PBGF)	up to \$500 million
Potential Writedown of Pickering "A" Assets	up to \$500 million
2002-03 Children's Aid Societies' Deficits	up to \$25 million

Source: Ontario Ministry of Finance.

Section IV: Medium-Term Fiscal Projection

This section outlines a fiscal projection for the Province over the medium term to 2006-07. The fiscal projection indicates that difficult choices will need to be made in order to balance the budget and put into place a sustainable fiscal policy and framework for the long term.

The medium-term fiscal projection for Ontario is based on a “no policy change” outlook that assumes no further changes to the current tax structure beyond those already announced or to existing programs and services.

Other key assumptions incorporated into this projection:

- Revenue growth into the medium term is based on a projection of the economy that uses the average of private-sector forecasts for Ontario. As of December 2003, the current consensus forecast for real GDP is 3.1 per cent in 2004, 3.6 per cent in 2005 and 3.3 per cent in 2006.
- The revenue outlook does not include any further tax changes beyond those already announced by the government, including the cancellation of corporations and personal income tax cuts, and the private schools tax credit, as well as the announced increase in tobacco taxes.
- The expense outlook into the medium term assumes program spending growth of about 5 per cent, in line with experience in recent years, and that capital spending is maintained at \$2.5 billion annually. Interest on debt costs increase to reflect the estimated impact of ongoing deficits.

Potential Medium-Term Fiscal Projection – “No Policy Change” (\$ Billions)

	Outlook	Projection		
	2003-04	2004-05	2005-06	2006-07
Revenue	69.5	73.5	77.9	81.7
Total Expense	75.2	77.2	81.4	85.2
Less: Reserve	--	1.0	1.0	1.0
Surplus / (Deficit)	(5.6)	(4.7)	(4.5)	(4.5)

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

This “no policy change” projection for Ontario indicates large deficits over the medium term, unless action is taken to restore the Province’s finances. Assuming current interest rate projections, each \$1 billion in deficit adds about \$50 million in annual interest charges, diverting scarce resources from other areas of spending such as health care and education.

The government has clearly indicated that this deficit track is not sustainable or acceptable.

REVENUE BY SOURCE

Assuming no further federal or provincial taxation policy changes beyond those already announced, Ontario revenues are projected to continue to grow over the next three years by an average growth rate of 5.5 per cent. The table below outlines the medium-term revenue projection consistent with the current consensus economic forecast.

Revenue by Source (\$ Billions)				
	Outlook	Projection		
	2003-04	2004-05	2005-06	2006-07
Taxation Revenue				
Personal Income Tax	18.6	20.0	21.6	23.1
Retail Sales Tax	14.6	15.5	16.6	17.6
Corporations Tax	7.2	8.2	8.6	9.0
All Other Taxes	9.6	10.1	10.6	10.9
Total Taxation Revenue	49.9	53.8	57.3	60.7
Government of Canada	10.3	10.1	10.6	10.7
Income from Government Enterprises	3.4	3.7	4.0	4.2
Other Non-Tax Revenue	5.9	5.9	6.0	6.0
Total Revenue	69.5	73.5	77.9	81.7

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

- Taxation revenues, representing on average nearly 74 per cent of total revenues, are projected to grow at an average annual rate of 6.7 per cent over the next three years.
- All three of the major tax sources—Personal Income, Corporations, and Retail Sales Taxes—are expected to contribute to this growth with strength expected in jobs, wages and salaries, retail sales and corporate profits. The medium-term projection reflects measures proposed in the Fiscal Responsibility Act, introduced on November 24, 2003.
- Payments from the Government of Canada are projected to average almost 14 per cent of total revenues over the next three years, consistent with current federal-provincial transfer arrangements and funding formulas. This projection does not include any potential increases such as Ontario's share of the additional \$2 billion Canada Health and Social Transfer funding, which is contingent on the level of the federal 2003-04 surplus, as these amounts will not be confirmed until late in 2004.
- Projected growth in Income from Government Enterprises and Other Non-Tax Revenues are consistent with expected economic growth over the medium term. The projection for Other Non-Tax Revenue does not include any extraordinary asset sales.

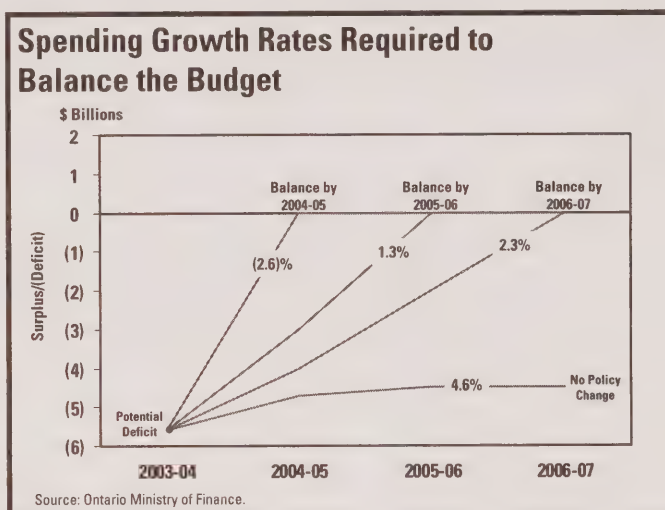
-
- Recent preliminary indications from Ontario Power Generation Inc. (OPG) suggest that there may be a substantial risk to the net income of OPG in the medium term. This substantial risk could potentially negatively impact both Income from Government Enterprises and Electricity Payments-In-Lieu of Taxes in the government's medium-term revenue outlook by a combined \$250 million to \$900 million a year between 2004-05 and 2006-07.

BALANCING THE BUDGET: THE IMPACT OF SPENDING GROWTH

Revenue growth from a growing economy alone will not be sufficient to balance the budget if spending growth continues at current rates. As outlined earlier, the potential “no policy change” deficit would remain at about \$4.5 billion for the next three years unless spending growth can be reduced.

The chart below shows that given the current revenue outlook over the medium term, spending would have to be cut in order to balance the budget by 2004-05. Balancing by 2005-06 or 2006-07 would require much slower spending growth than in recent years.

- To balance the budget in 2004-05, total spending would actually have to decline by 2.6 per cent from the projected 2003-04 level, excluding the impact of \$720 million in SARS-related expenses in 2003-04. Provincial spending has declined year-over-year only once in the past ten years, with a 3.3 per cent decline in 1996-97.
- Balancing the budget by 2005-06 or 2006-07 is possible as long as spending growth is more moderate than in recent years. To balance by 2005-06, spending growth would have to be held to a maximum of 1.3 per cent on average for the next two years. Balancing by 2006-07 requires spending growth to be held to an average of 2.3 per cent a year for three years.
- The “no policy change” scenario assumes total spending growth of about 4.6 per cent on average, which reflects historical growth patterns consistent with the past five years, and interest on debt costs associated with ongoing deficits.



The government has indicated that it will consult widely with the public and stakeholders on how to best deal with the fiscal challenges ahead. As well, the government will review all non-tax revenue mechanisms to ensure a stronger revenue base that will fund the transformation of key government services.

While these fiscal scenarios serve to illustrate the many difficult choices facing the government as it plans for a balanced budget, it should be noted that these scenarios use planning assumptions only. These underlying assumptions could be materially altered by government decisions and advice, including advice received through the forthcoming public consultation process. It is expected that as a result of public consultations, the eventual outcome could differ substantially from the scenarios presented in this section.

Conclusion

Ontario currently faces a deficit of at least \$5.6 billion in 2003-04. Based on reasonable revenue projections and the recent experience in Provincial spending growth, Ontario faces an ongoing structural deficit into the medium term, unless firm action is taken.

The government is determined to restore the Province's finances to a sustainable fiscal path, one that provides for health care, education and other services that the people of Ontario expect while ensuring that the government lives within its means. Only by eliminating the deficit can Ontario's programs and services be sustained and funded adequately in the long term.

Annex II Tables and Graphs

Statement of Financial Transactions
(\$ Millions)

Table 1

	1999-00	2000-01	2001-02	Actual 2002-03	Outlook 2003-04
Revenue	64,804	66,044	66,249	68,609	69,532
Expense					
Programs	48,222	51,146	53,647	56,922	62,554
Capital	4,887	2,123	1,890	1,876	2,574
Interest on Debt	11,027	10,873	10,337	9,694	10,025
Total Expense	64,136	64,142	65,874	68,492	75,153
Surplus / (Deficit)	668	1,902	375	117	(5,621)
Net Debt	134,398	132,496	132,121	132,647	138,970
Accumulated Deficit	134,398	132,496	132,121	118,705	124,326

Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFC) is consolidated on a line-by-line basis starting in 1999-00. Expense and revenue totals for prior years have been restated to reflect the new accounting treatment. Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

Revenue
(\$ Millions)

Table 2

	Actual 2002-03	Outlook 2003-04
Taxation Revenue		
Personal Income Tax	18,195	18,600
Retail Sales Tax	14,183	14,550
Corporations Tax	7,459	7,215
Employer Health Tax	3,589	3,705
Gasoline Tax	2,306	2,310
Fuel Tax	682	695
Tobacco Tax	1,183	1,310
Land Transfer Tax	814	835
Electricity Payments-In-Lieu of Taxes	711	532
Other Taxes	429	195
	49,551	49,947
Government of Canada		
Canada Health and Social Transfer (CHST)	7,346	7,093
CHST Supplements	191	577
Health Reform Fund	-	387
Diagnostic/Medical Equipment	-	193
Social Housing	525	643
Infrastructure	62	285
Other Government of Canada	770	1,086
	8,894	10,264
Income from Investment in Government Business Enterprises		
Ontario Lottery and Gaming Corporation	2,288	2,065
Liquor Control Board of Ontario	939	1,048
Ontario Power Generation Inc. and Hydro One Inc.	717	318
Other Government Enterprises	(2)	3
	3,942	3,434
Other Non-Tax Revenue		
Reimbursements	1,111	1,208
Electricity Debt Retirement Charge	889	979
Vehicle and Driver Registration Fees	982	933
Power Sales	635	611
Sales and Rentals	560	571
Other Fees and Licences	606	531
Liquor Licence Revenue	530	477
Royalties	304	225
Miscellaneous Other Non-Tax Revenue	605	352
	6,222	5,887
Total Revenue	68,609	69,532

Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFEC) is consolidated on a line-by-line basis.

Operating Expense
(\$ Millions)

Table 3

Ministry	Actual 2002-03	Outlook 2003-04
Agriculture and Food	613	661
Attorney General	1,057	1,060
Board of Internal Economy	146	169
Children's Services	2,171	2,314
Citizenship and Immigration	53	63
Community and Social Services	5,650	5,840
Community Safety and Correctional Services	1,898	1,754
Consumer and Business Services	177	177
Culture	330	278
Economic Development and Trade	247	315
Education	8,998	9,787
Teachers' Pension Plan (TPP)	238	340
Energy	144	130
Environment	232	274
Executive Offices	20	20
Finance - Own Account	1,092	1,222
Interest on Debt	9,694	10,025
Community Reinvestment Fund	622	649
Electricity Consumer Price Protection Fund	665	292
Power Purchases	786	918
Health and Long-Term Care	25,758	27,885
SARS-related Health Costs	-	622
Intergovernmental Affairs	6	6
Labour	123	120
Management Board Secretariat	172	336
Retirement Benefits	102	335
Contingency Fund	-	625
Municipal Affairs	636	684
Native Affairs Secretariat	16	15
Natural Resources	454	530
Northern Development and Mines	73	74
Office of Francophone Affairs	3	4
Public Infrastructure Renewal	33	35
Tourism and Recreation	135	228
Training, Colleges and Universities	3,471	3,996
Transportation	801	796
Total Operating Expense	66,616	72,579

Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFC) is consolidated on a line-by-line basis. Preliminary allocations by ministry, pending finalization of the realignment of government ministries currently under way.

Capital Expense
(\$ Millions)

Table 4

Ministry	Actual 2002-03	Outlook 2003-04
Agriculture and Food	68	1
Attorney General	43	31
Community and Social Services	23	13
Community Safety and Correctional Services	66	55
Consumer and Business Services	1	1
Culture	42	65
Economic Development and Trade	21	46
Education	10	16
Energy	46	47
Environment	13	15
Finance	8	11
Health and Long-Term Care	339	504
Management Board Secretariat	3	-
Municipal Affairs	20	188
Native Affairs Secretariat	2	3
Natural Resources	72	91
Northern Development and Mines	391	356
Public Infrastructure Renewal	4	169
Capital Contingency Fund	-	114
Tourism and Recreation	55	55
Training, Colleges and Universities	71	100
Transportation	578	693
Total Capital Expense*	1,876	2,574

* Capital expenses includes transfers for capital purposes, the amortization of major tangible capital assets owned by Provincial ministries, repairs, maintenance and other, including the capital contingency fund. Consistent with the recommendation of the Public Sector Accounting Board (PSAB), the cost of acquisition or construction of major tangible capital assets owned by the Province is amortized to expense over their useful lives.

Note: Preliminary allocations by ministry, pending finalization of the realignment of government ministries currently under way.

Schedule of Net Investment in Capital Assets
(\$ Millions)

Table 5

	2003-04 Outlook			Total
	Land and Buildings	Transportation Infrastructure	Government Organizations' Capital Assets	
Acquisition/Construction of Major Tangible Capital Assets	133	1,042	346	1,521
Amortization of Provincially Owned Major Tangible Capital Assets	(110)	(546)	(163)	(819)
Net Investment in Capital Assets*	23	496	183	702

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction.

Ten-Year Review of Selected Financial and Economic Statistics
(\$ Millions)

	1994-95	1995-96	1996-97
Financial Transactions			
Revenue	46,039	49,473	49,450
Expense			
Programs	44,505	46,163	45,136
Capital	3,831	3,635	2,612
Interest on Debt	7,832	8,475	8,607
Total Expense	56,168	58,273	56,355
Surplus / (Deficit)	(10,129)	(8,800)	(6,905)
Net Debt	90,728	101,864	108,769
Accumulated Deficit	90,728	101,864	108,769
Gross Domestic Product (GDP) at Market Prices	311,096	329,317	338,173
Personal Income	260,671	271,397	276,303
Population—July (000s)	10,818	10,950	11,083
Net Debt per Capita (dollars)	8,387	9,303	9,814
Personal Income per Capita (dollars)	24,096	24,785	24,930
Total Expense as a per cent of GDP	18.1	17.7	16.7
Interest on Debt as a per cent of Revenue	17.0	17.1	17.4
Net Debt as a per cent of GDP	29.2	30.9	32.2

Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEF) is consolidated on a line-by-line basis starting in 1999-00. Expense and revenue totals for prior years have been restated to reflect the new accounting treatment. Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table 6

1997-98	1998-99	1999-00	2000-01	2001-02	Actual 2002-03	Outlook 2003-04
52,518	55,786	64,804	66,044	66,249	68,609	69,532
45,304	46,557	48,222	51,146	53,647	56,922	62,554
2,451	2,215	4,887	2,123	1,890	1,876	2,574
8,729	9,016	11,027	10,873	10,337	9,694	10,025
56,484	57,788	64,136	64,142	65,874	68,492	75,153
(3,966)	(2,002)	668	1,902	375	117	(5,621)
112,735	114,737	134,398	132,496	132,121	132,647	138,970
112,735	114,737	134,398	132,496	132,121	118,705	124,326
359,353	377,897	409,020	440,708	452,923	478,112	501,061
289,537	304,652	321,702	347,427	359,783	372,444	385,852
11,228	11,367	11,506	11,685	11,898	12,097	12,238
10,041	10,094	11,681	11,339	11,104	10,965	11,356
25,787	26,801	27,959	29,733	30,239	30,788	31,529
15.7	15.3	15.7	14.6	14.5	14.3	15.0
16.6	16.2	17.0	16.5	15.6	14.1	14.4
31.4	30.4	32.9	30.1	29.2	27.7	27.7

RISKS AND SENSITIVITIES TO THE FISCAL PLAN

Selected Risks and Sensitivities to the Fiscal Plan – The Ontario Economy and Revenue **Table 7**

Item	2003-04 Assumption	Sensitivities
Real Economic Growth ¹	1.7 per cent real GDP growth in 2003	\$0.6 billion per percentage point of growth.
Composition of Economic Growth Examples:		
Wages and Salaries	4.0 per cent growth in 2003	One percentage point change, other things equal, changes revenues by \$0.3 billion, mainly Personal Income and Employer Health Taxes.
Personal Consumption Expenditure	3.8 per cent real growth in 2003	One percentage point change, other things equal, changes revenues by \$0.1 billion, mainly Retail Sales Tax.
Corporate Profits	11.5 per cent growth in 2003	Two percentage points change, other things equal, changes revenues by \$0.1 billion, mainly Corporations Tax.
Ontario Population Share	38.7 per cent of Canada-wide population in 2003	Three-tenths of a percentage point change in population share would change Federal Payments by \$0.1 billion.
2002 Personal Income and Corporations Tax return processing	2002-03 revenues overestimated by \$0.3 billion based on tax return processing data received after 2002-03 Public Accounts finalized	Risk to the current 2003-04 revenue outlook of +/- \$0.6 billion from further 2002 tax return processing.
Data applied in federal funding formulas	Federal payments outlook fully consistent with current demographic, economic and tax assumptions	Could partially offset changes in tax revenues. Changes also possible based on other data. Current risk of +/- \$0.3 billion.

1. This response would hold "on average" and could vary significantly depending on the composition of change in income and expenditures.

RISKS AND SENSITIVITIES TO THE FISCAL PLAN

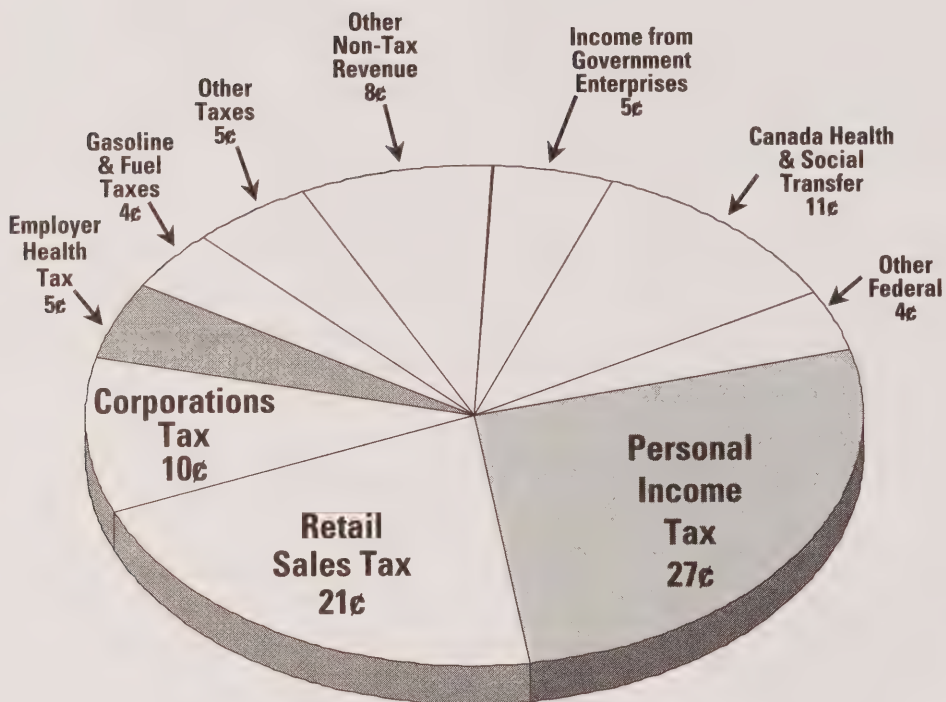
Selected Risks and Sensitivities to the Fiscal Plan – Expense

Table 8

Program	2003-04 Assumption	Sensitivities
Hospitals	Annual growth of 7.8 per cent	Average annual growth was almost 10 per cent from 1999-00 to 2002-03. One per cent change in hospital funding: \$105 million.
Drug programs	Annual growth of 10.4 per cent (in health portion)	One per cent change in utilization of all drug programs: \$28 million.
Long-term care community services/ home care	Over 15.6 million hours of homemaking and support services	One per cent change in hours of homemaking and support services: \$4 million.
	7.9 million nursing and professional visits	One per cent change in nursing and professional visits: \$5 million.
Long-term care facilities	Almost 69,500 long-term care facility beds	Annual average operating cost per bed in a long-term care facility is over \$30,000. One per cent change in number of beds: \$21 million.
Elementary and secondary schools	Almost 2 million average daily pupil enrolment	One per cent enrolment change: \$150 million.
College students	155,000 full-time students	One per cent enrolment change: \$7 million.
University students	275,000 full-time students	One per cent enrolment change: \$19 million.
Ontario Works	190,000 average annual caseload	One per cent caseload change: \$15 million.
Ontario Disability Support Program	220,000 average annual caseload	One per cent caseload change: \$21 million.
Judicial system	2.9 million adult inmate days per year	Average cost \$150 per inmate per day. One per cent change in inmate days: \$4 million.
Interest on debt	Average borrowing cost of 5.4 per cent for new financing	100 basis points change in borrowing costs for new financing: \$45 million.

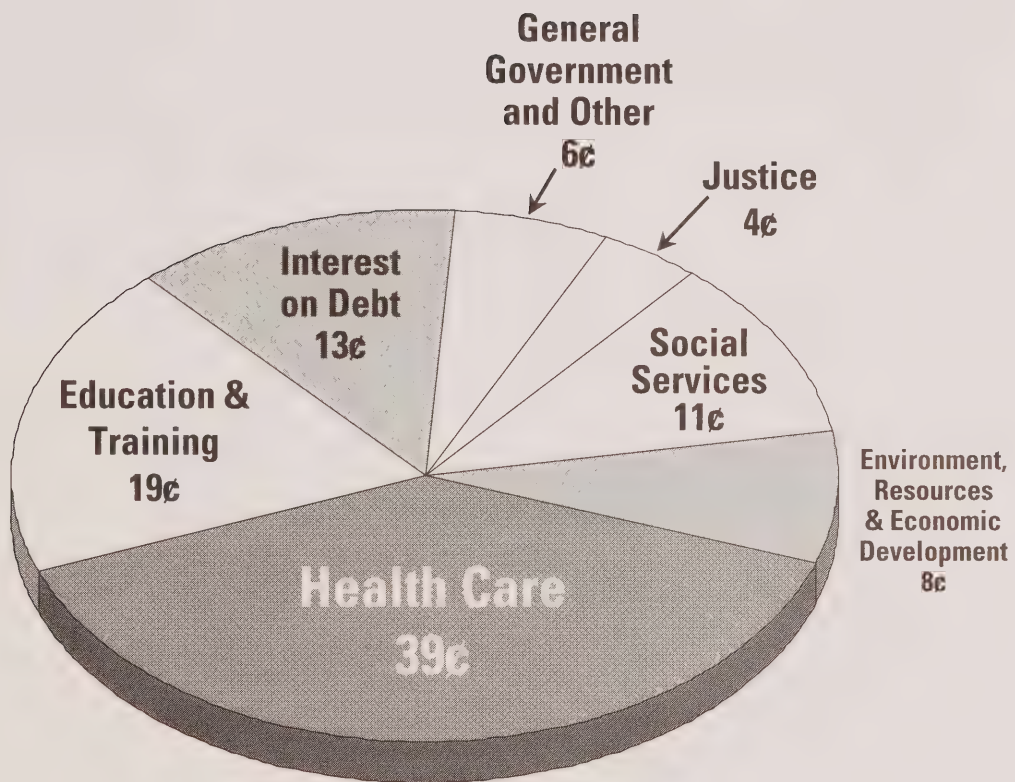
Revenue Dollar

2003-04



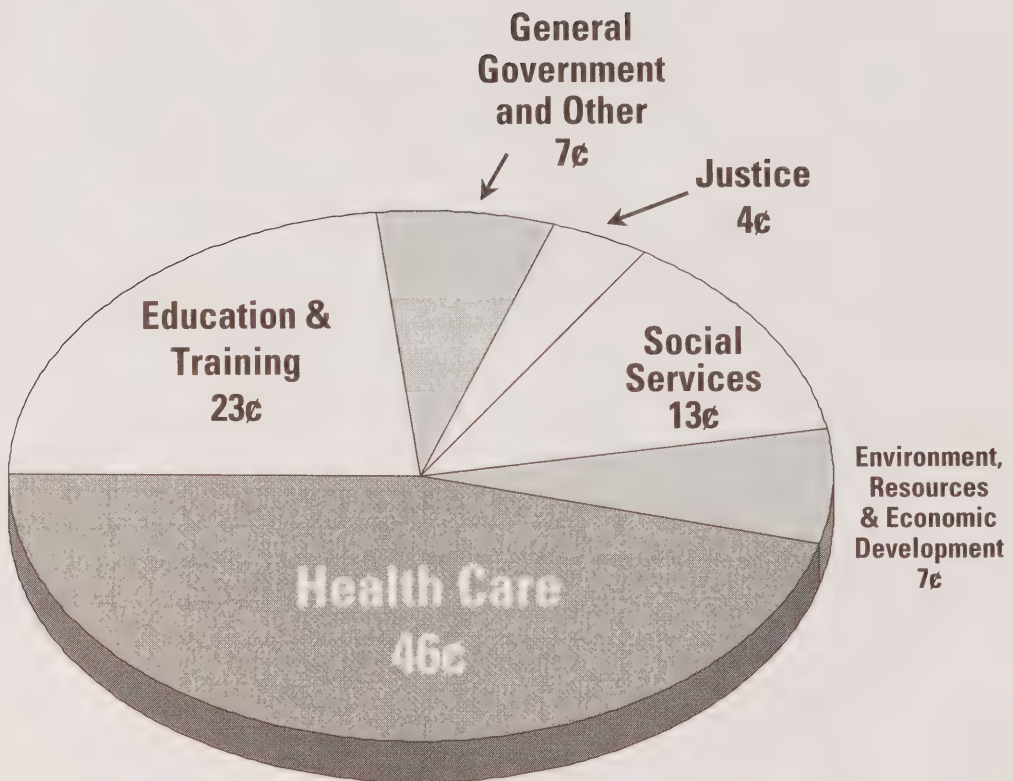
Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFC) is consolidated on a line-by-line basis.

Total Expense Dollar 2003-04



Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFC) is consolidated on a line-by-line basis.

Program Expense Dollar 2003-04



Note: Consistent with the treatment in the 2002-03 Public Accounts, the Ontario Electricity Financial Corporation (OEFC) is consolidated on a line-by-line basis.

Annex II Appendix

MAJOR CHANGES FROM ERIK PETERS' REPORT

Major Changes from Erik Peters Report	2003-04 \$ Billions
2003-04 Deficit Outlook – As Reported October 29, 2003	(5.6)
Revenue	
Federal SARS relief – reflected as revenue, consistent with Provincial financial statements	0.3
Ontario Electricity Financial Corporation (OEFC) Income – as per 2002-03 Public Accounts treatment	2.1
Tax Measures – impact of cancelling Equity in Education Tax Credit (EiETC), reductions in Personal Income Tax (PIT) and Corporations Tax rates, and elimination of first-tier on PIT surtax	0.4
Increased Tobacco Taxes – as announced November 24, 2003	0.1
Lower Revenue forecast – impact of weaker 2002 tax assessments	(0.5)
Add: Total Change in Revenue Outlook	2.4
Expense	
SARS costs – treatment consistent with Provincial financial statements	0.3
Ontario Electricity Financial Corporation Expense – as per 2002-03 Public Accounts treatment:	
Impact on interest on debt	1.2
Impact on other expense	1.5
Seniors' Property Tax Rebate – impact of cancelling	(0.4)
Establish Contingency Fund	0.6
Less: Total Change in Expense Outlook	3.1
Add: Electricity Sector	0.7
OEFC net income (increase in stranded debt) allocated to revenue, interest on debt, and expense – as per 2002-03 Public Accounts treatment	
Current Deficit Outlook	(5.6)

Note: Numbers may not add due to rounding.

ANNEX III

Ontario's Borrowing and Debt Management

Ontario's Borrowing and Debt Management

BORROWING PROGRAM

The total long-term public market borrowing requirements for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2003-04 are \$22.7 billion. This amount includes \$14.4 billion of debt maturities and redemptions and \$5.6 billion from the deficit.

As of December 11, 2003, the Ontario Financing Authority (OFA) had completed \$13.6 billion of the Province's estimated 2003-04 long-term public borrowing requirements of \$18.2 billion and \$4.0 billion of OEFC's \$4.5 billion requirements. The domestic market has been the main source of funding for the Province and OEFC in 2003-04, providing a total of \$11.5 billion, including seven syndicated domestic issues, 27 structured Domestic Medium Term Notes (DMTNs), two bond auctions and the ninth annual Ontario Savings Bond campaign.

While the majority of the borrowing has been completed in the domestic market, Ontario has successfully diversified its funding sources by accessing foreign markets. Since March 31, 2003, the OFA has launched its first global bond denominated in Euros as well as three U.S. dollar global bonds. Five Canadian dollar Euro Medium Term Notes (EMTNs) and four foreign currency EMTNs denominated in Australian dollars, Hong Kong dollars, Swiss francs and Japanese yen were also issued. In addition, the Province issued a yen loan.

2003-04 Borrowing Program		
Consolidated - Province and OEFC		(\$ Billions)
Deficit		5.6
Adjustments for:		
Non-cash Items Included in Deficit		0.9
Amortization of Tangible Capital Assets		(0.8)
Acquisitions of Tangible Capital Assets		1.5
Debt Maturities:		
Province*	9.8	
OEFC	<u>3.5</u>	13.3
Debt Redemptions		1.1
Canada Pension Plan Borrowing		(0.2)
(Decrease) / Increase in Cash and Cash Equivalents		(2.0)
(Increase) / Decrease in Short-Term Borrowing		(0.3)
(Other Sources) / Uses of Cash		3.6
Long-Term Public Borrowing Requirements		22.7

* Debt maturities are \$0.3 billion lower since that amount of maturities has now been extended to future years.

Borrowing Program Status			
(\$ Billions)	Completed	Remaining	Total
Province	13.6	4.6	18.2
OEFC	4.0	0.5	4.5
Total	17.6	5.1	22.7

Note: Consistent with the treatment in the 2002-03 Public Accounts, the borrowing program of OEFC was consolidated with that of the Province.

- The \$3.6 billion Uses of Cash includes the replacement of \$2.2 billion in deposits with the Province of Ontario Savings Office upon its sale, \$1.2 billion for the Ontario Nuclear Funds Agreement and a \$1.0 billion capital injection to the Ontario Municipal Economic Infrastructure Financing Authority, offset by \$0.8 billion from the collection of notes receivable from Hydro One and the Independent Electricity Market Operator.
- In addition to the borrowing and redemptions shown in the table, the Province bought back \$0.4 billion of previously issued debt, financing these purchases with similar amounts of debt issued at more favourable rates.

Debt Management Program

The OFA adheres to prudent risk management policies, using financial instruments such as options and swaps to hedge the Province's exposure to market risks such as foreign exchange and interest rate risks. The Province limits itself to having a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As of November 30, foreign exchange exposure was 1.4 per cent of debt issued for Provincial purposes. The Province limits itself to having a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes. Interest rate reset exposure is the combination of net floating rate exposure (i.e., gross floating rate exposure less liquid reserves) and all fixed rate debt maturing within the next 12 months. As of November 30, interest rate reset exposure was 14.6 per cent of debt issued for Provincial purposes.

The OFA also manages the Province's credit risk exposures arising from capital market activities by limiting market transactions to highly rated counterparties and maintaining credit exposures within the approved policy limits.

Debt maturities will remain significant during the next few years. As of November 30, the amount of maturing debt for the Province and the OEFC in 2004-05 is \$16.0 billion, followed by \$18.3 billion in 2005-06. In managing these maturities, the OFA will maintain a flexible financing approach and monitor domestic and international bond markets continuously, seeking out the most cost-effective borrowing opportunities. The OFA will also continue to aim for a balanced maturity profile and take advantage of cost-effective opportunities to schedule maturities into years that currently have lower levels of maturing debt.

ANNEX IV

Economic Data Tables

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(Note: Data in the tables may not add to totals due to rounding.)

Table 1 **Ontario, Gross Domestic Product, 1989-2002**
(\$ Billions)

	1989	1990	1991	1992	1993	1994	1995
Real GDP (chained \$1997)	322.5	316.9	304.5	307.2	310.2	328.5	340.1
Consumption	175.7	176.3	172.9	175.3	177.7	183.1	186.6
Government	65.6	69.1	72.3	72.6	72.1	72.9	73.3
Residential Construction	24.4	19.4	16.3	17.1	15.6	15.9	13.7
Non-residential Construction	14.4	13.1	12.5	10.9	8.8	7.8	7.5
Machinery and Equipment	20.4	19.5	18.0	18.5	17.7	20.2	22.3
Exports	164.3	164.3	159.4	165.5	179.4	198.1	213.8
Imports	145.8	143.2	142.2	149.8	158.7	169.4	180.5
Nominal Gross Domestic Product	278.8	282.8	283.1	286.5	293.4	311.1	329.3

Table 1 (continued)	(\$ Billions)						
	1996	1997	1998	1999	2000	2001	2002
Real GDP (chained \$1997)	343.8	359.4	376.7	405.0	427.9	435.4	451.1
Consumption	190.9	200.1	207.1	216.6	227.0	232.5	240.8
Government	70.6	70.5	72.0	75.1	77.8	81.6	85.1
Residential Construction	15.0	17.2	16.8	18.8	20.1	22.0	24.1
Non-residential Construction	9.2	10.0	10.2	11.3	10.4	9.7	9.3
Machinery and Equipment	23.7	29.3	31.3	34.2	36.4	36.4	34.2
Exports	225.6	242.6	260.4	289.8	311.9	301.9	308.5
Imports	189.4	213.3	223.3	241.9	260.9	246.6	253.8
Nominal Gross Domestic Product	338.2	359.4	377.9	409.0	440.7	452.9	478.1

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 2 **Ontario, Growth in Gross Domestic Product, 1989-2002**

	(Per Cent Change)						
	1989	1990	1991	1992	1993	1994	1995
Real GDP (chained \$1997)	3.4	-1.7	-3.9	0.9	1.0	5.9	3.5
Consumption	3.7	0.3	-1.9	1.4	1.3	3.1	1.9
Government	4.2	5.3	4.5	0.4	-0.7	1.1	0.7
Residential Construction	9.1	-20.2	-15.9	4.5	-8.7	2.0	-14.0
Non-residential Construction	6.6	-9.0	-4.9	-12.9	-18.7	-12.2	-2.7
Machinery and Equipment	3.1	-4.8	-7.2	2.4	-4.4	14.6	9.9
Exports	3.9	0.0	-3.0	3.9	8.4	10.4	7.9
Imports	5.0	-1.8	-0.7	5.3	5.9	6.8	6.6
Nominal Gross Domestic Product	8.7	1.5	0.1	1.2	2.4	6.0	5.9

Table 2 (continued) **(Per Cent Change)**

	1996	1997	1998	1999	2000	2001	2002
Real GDP (chained \$1997)	1.1	4.5	4.8	7.5	5.6	1.8	3.6
Consumption	2.3	4.8	3.5	4.6	4.8	2.4	3.6
Government	-3.7	-0.1	2.0	4.4	3.6	4.9	4.2
Residential Construction	9.6	14.5	-1.8	11.6	7.0	9.2	9.6
Non-residential Construction	21.5	9.2	1.6	11.4	-8.1	-6.4	-4.2
Machinery and Equipment	6.7	23.3	6.8	9.4	6.5	-0.1	-6.1
Exports	5.6	7.5	7.3	11.3	7.6	-3.2	2.2
Imports	4.9	12.6	4.7	8.4	7.8	-5.5	2.9
Nominal Gross Domestic Product	2.7	6.3	5.2	8.2	7.7	2.8	5.6

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 3**Ontario, Selected Economic Indicators, 1989-2002**

	1989	1990	1991	1992	1993	1994	1995
Retail Sales* (\$ Billions)	72.6	72.6	67.3	68.9	71.7	76.9	79.6
Housing Starts - Units (000s)	93.3	62.6	52.8	55.8	45.1	46.6	35.8
Personal Income (\$ Billions)	229.0	241.7	247.7	253.8	256.1	260.7	271.4
Pre-tax Corporate Profits (\$ Billions)	27.4	19.8	14.6	14.5	17.9	27.9	33.1
Consumer Price Index (1992 = 100)	90.2	94.6	99.0	100.0	101.8	101.8	104.3
Labour Force (000s)	5,470	5,533	5,544	5,542	5,581	5,574	5,620
Employment (000s)	5,193	5,191	5,016	4,949	4,974	5,039	5,131
Unemployment Rate (%)	5.1	6.2	9.5	10.7	10.9	9.6	8.7

Table 3 (continued)

	1996	1997	1998	1999	2000	2001	2002
Retail Sales* (\$ Billions)	80.2	86.4	92.4	99.2	106.4	109.2	115.3
Housing Starts - Units (000s)	43.1	54.1	53.8	67.2	71.5	73.3	83.6
Personal Income (\$ Billions)	276.3	289.5	304.7	321.7	347.4	359.8	372.4
Pre-tax Corporate Profits (\$ Billions)	34.2	37.5	39.5	49.7	54.8	48.5	56.6
Consumer Price Index (1992 = 100)	105.9	107.9	108.9	111.0	114.2	117.7	120.1
Labour Force (000s)	5,695	5,801	5,914	6,071	6,228	6,364	6,532
Employment (000s)	5,181	5,313	5,490	5,688	5,872	5,963	6,068
Unemployment Rate (%)	9.0	8.4	7.2	6.3	5.7	6.3	7.1

* Retail sales include Federal Sales Taxes up to 1990 but exclude GST after 1990.

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

Table 4 **Ontario, Economic Indicators, Annual Change, 1989-2002**

(Per Cent Change)

	1989	1990	1991	1992	1993	1994	1995
Retail Sales*	4.0	0.0	-7.2	2.3	4.1	7.2	3.6
Housing Starts	-6.6	-32.9	-15.7	5.6	-19.1	3.3	-23.2
Personal Income	9.7	5.5	2.5	2.5	0.9	1.8	4.1
Pre-tax Corporate Profits	-6.7	-27.8	-26.0	-0.8	23.1	55.8	18.7
Consumer Price Index	5.7	4.9	4.7	1.0	1.8	0.0	2.5
Labour Force	2.2	1.2	0.2	0.0	0.7	-0.1	0.8
Employment	2.2	0.0	-3.4	-1.3	0.5	1.3	1.8

Table 4 (continued)

(Per Cent Change)

	1996	1997	1998	1999	2000	2001	2002
Retail Sales*	0.7	7.8	6.9	7.3	7.3	2.6	5.6
Housing Starts	20.2	25.6	-0.4	24.9	6.4	2.5	14.1
Personal Income	1.8	4.8	5.2	5.6	8.0	3.6	3.5
Pre-tax Corporate Profits	3.3	9.9	5.2	25.9	10.2	-11.5	16.7
Consumer Price Index	1.5	1.9	0.9	1.9	2.9	3.1	2.0
Labour Force	1.3	1.9	1.9	2.6	2.6	2.2	2.6
Employment	1.0	2.6	3.3	3.6	3.2	1.5	1.8

* Retail sales include Federal Sales Taxes up to 1990 but exclude GST after 1990.

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

Table 5 **Ontario, Real Gross Domestic Product by Industry at Basic Prices, 1999-2002**

	(\$1997 Millions)			
	1999	2000	2001	2002
Goods Producing Industries	118,106	127,442	123,510	127,807
Primary	7,824	7,836	7,540	7,635
Utilities	9,807	9,840	9,757	10,083
Construction	17,910	18,364	19,970	20,546
Manufacturing ¹	82,565	91,403	86,243	89,543
Services Producing Industries	255,569	269,319	278,087	288,614
Wholesale Trade	24,323	26,039	26,398	28,379
Retail Trade	18,833	20,045	20,451	21,381
Transportation and Warehousing	15,541	16,142	15,869	16,119
Information and Cultural (incl. Telecommunications)	14,659	16,150	17,304	18,278
Finance, Insurance, Real Estate, Rental and Leasing	78,442	83,393	86,971	90,506
Professional, Scientific and Technical Services	18,053	19,736	20,742	21,386
Administrative and Other Support Services	8,800	9,274	9,649	10,109
Educational Services	17,148	17,202	17,390	17,644
Health Care and Social Assistance	20,628	20,960	21,621	22,302
Arts, Entertainment and Recreation	3,375	3,667	3,739	3,892
Accommodation and Food Services	8,608	8,759	8,938	8,981
Other Services (excl. Public Administration)	8,467	8,841	9,150	9,389
Public Administration	18,693	19,111	19,865	20,248
Total Production	373,675	396,761	401,597	416,421

Note:

1. See Table 7 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 6 Ontario, Growth in Real Gross Domestic Product by Industry at Basic Prices, 1999-2002

	(Per Cent Change)			
	1999	2000	2001	2002
Goods Producing Industries	8.2	7.9	-3.1	3.5
Primary Industries	9.0	0.1	-3.8	1.3
Utilities	0.9	0.3	-0.8	3.3
Construction	14.5	2.5	8.7	2.9
Manufacturing ¹	7.8	10.7	-5.6	3.8
Services Producing Industries	7.4	5.4	3.3	3.8
Wholesale Trade	11.6	7.1	1.4	7.5
Retail Trade	4.8	6.4	2.0	4.5
Transportation and Warehousing	8.5	3.9	-1.7	1.6
Information and Cultural (incl. Telecommunications)	20.8	10.2	7.1	5.6
Finance, Insurance, Real Estate, Rental and Leasing	5.8	6.3	4.3	4.1
Professional, Scientific and Technical Services	15.2	9.3	5.1	3.1
Administrative and Other Support Services	11.9	5.4	4.0	4.8
Educational Services	-0.5	0.3	1.1	1.5
Health Care and Social Assistance	3.7	1.6	3.2	3.1
Arts, Entertainment and Recreation	7.5	8.7	2.0	4.1
Accommodation and Food Services	12.6	1.8	2.0	0.5
Other Services (excl. Public Administration)	9.8	4.4	3.5	2.6
Public Administration	1.4	2.2	3.9	1.9
Total Production	7.6	6.2	1.2	3.7

Note:

1. See Table 8 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 7**Ontario, Real Gross Domestic Product in
Selected Manufacturing Industries, 1999-2002**

	(\$1997 Millions)			
	1999	2000	2001	2002
Manufacturing	82,565	91,403	86,243	89,543
Food	6,958	6,832	7,282	7,365
Beverage and Tobacco	2,418	2,543	2,649	2,605
Clothing	881	1,081	1,022	1,110
Leather	149	167	143	158
Textile Products	832	964	868	873
Wood Products	1,605	1,980	2,003	2,192
Paper	3,256	3,690	3,477	3,536
Printing	2,236	2,637	2,653	2,605
Petroleum and Coal Products	610	569	565	557
Chemical Products	6,678	7,229	7,159	7,829
Plastic Products	3,622	4,391	4,639	5,294
Rubber Products	1,416	1,458	1,393	1,398
Non-metallic Mineral Products	2,127	2,308	2,276	2,320
Primary and Fabricated Metal	11,187	12,806	12,448	13,189
Machinery	5,574	6,598	6,023	6,269
Computer and Electronic Products	6,708	9,080	6,722	6,081
Electrical Equipment	2,205	2,585	2,207	2,303
Transportation Equipment	20,481	20,168	18,692	19,890
Of Which: Auto Industry	17,894	17,988	16,317	17,612
Furniture and Related Products	2,362	2,793	2,634	2,570
Miscellaneous Manufacturing	1,262	1,526	1,388	1,399

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 8**Ontario, Growth in Real Gross Domestic Product in
Selected Manufacturing Industries, 1999-2002**

	(Per Cent Change)			
	1999	2000	2001	2002
Manufacturing	7.8	10.7	-5.6	3.8
Food	1.7	-1.8	6.6	1.1
Beverage and Tobacco	-6.6	5.2	4.2	-1.7
Clothing	-5.8	22.7	-5.5	8.6
Leather	-7.2	12.5	-14.4	10.4
Textile Products	-4.2	15.9	-10.0	0.6
Wood Products	-2.0	23.4	1.2	9.5
Paper	-2.7	13.3	-5.8	1.7
Printing	0.0	17.9	0.6	-1.8
Petroleum and Coal Products	-2.2	-6.7	-0.7	-1.3
Chemical Products	3.2	8.2	-1.0	9.4
Plastic Products	12.0	21.2	5.6	14.1
Rubber Products	7.6	3.0	-4.5	0.3
Non-metallic Mineral Products	-1.4	8.6	-1.4	1.9
Primary and Fabricated Metal	5.3	14.5	-2.8	5.9
Machinery	-1.5	18.4	-8.7	4.1
Computer and Electronic Products	36.6	35.4	-26.0	-9.5
Electrical Equipment	-4.9	17.3	-14.6	4.4
Transportation Equipment	18.6	-1.5	-7.3	6.4
Of Which: Auto Industry	20.8	0.5	-9.3	7.9
Furniture and Related Products	4.6	18.3	-5.7	-2.4
Miscellaneous Manufacturing	7.5	20.9	-9.0	0.7

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 9**Ontario, Housing Market Indicators, 1996-2002**

	1996	1997	1998	1999	2000	2001	2002
Residential Construction							
Current \$ Millions*	14,549	17,154	17,227	19,738	21,729	24,528	28,030
	9.6	17.9	0.4	14.6	10.1	12.9	14.3
New Construction*	6,489	8,258	8,351	10,175	11,312	12,337	14,772
	9.4	27.3	1.1	21.8	11.2	9.1	19.7
Alterations and Improvements*	5,383	5,711	5,758	6,080	6,790	7,928	8,309
	7.3	6.1	0.8	5.6	11.7	16.8	4.8
Transfer Costs*	2,677	3,186	3,118	3,483	3,627	4,263	4,949
	14.8	19.0	-2.1	11.7	4.1	17.5	16.1
Housing Starts (000s)*	43.1	54.1	53.8	67.2	71.5	73.3	83.6
	20.2	25.6	-0.4	24.9	6.4	2.5	14.1
Home Resales (000s)*	137.9	140.6	138.5	148.7	147.2	162.3	177.4
	31.4	1.9	-1.5	7.4	-1.0	10.3	9.3
Average Resale Home Price (\$)*	155,662	164,382	167,115	174,049	183,841	193,357	210,699
	0.7	5.6	1.7	4.1	5.6	5.2	9.0

* Per cent change is shown on second line.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ontario Ministry of Finance.

Table 10		Selected Financial Indicators, 1989-2002						
		(Per Cent)						
		1989	1990	1991	1992	1993	1994	1995
Interest Rates								
Bank Rate		12.3	13.1	9.0	6.8	5.1	5.8	7.1
Prime Rate		13.3	14.1	9.9	7.5	5.9	6.9	8.6
10-Year Government Bonds		9.8	10.8	9.4	8.1	7.2	8.4	8.1
Three-month T-Bills		12.1	12.8	8.7	6.6	4.8	5.5	6.9
Mortgage Rates								
5-Year Rate		12.1	13.4	11.1	9.5	8.8	9.5	9.2
1-Year Rate		12.9	13.4	10.1	7.9	6.9	7.8	8.4
Household Debt Burden*								
Consumer		20.6	21.3	21.1	21.0	21.0	22.3	23.1
Mortgage		49.2	53.3	55.8	59.2	62.2	65.3	65.4
Total		69.8	74.6	76.9	80.1	83.2	87.6	88.5

Table 10 (continued)		(Per Cent)						
		1996	1997	1998	1999	2000	2001	2002
Interest Rates								
Bank Rate		4.5	3.5	5.1	4.9	5.8	4.3	2.7
Prime Rate		6.1	5.0	6.6	6.4	7.3	5.8	4.2
10-Year Government Bonds		7.2	6.1	5.3	5.6	5.9	5.5	5.3
Three-month T-Bills		4.2	3.3	4.7	4.7	5.5	3.8	2.6
Mortgage Rates								
5-Year Rate		7.9	7.1	6.9	7.6	8.3	7.4	7.0
1-Year Rate		6.2	5.5	6.5	6.8	7.9	6.1	5.2
Household Debt Burden*								
Consumer		24.4	26.0	27.5	28.3	29.7	30.5	31.2
Mortgage		67.1	68.5	69.0	68.7	67.1	67.0	68.7
Total		91.5	94.4	96.4	97.0	96.9	97.5	99.9

* Canadian household debt as a share of personal disposable income.

Note: All data are annual averages.

Sources: Statistics Canada and Bank of Canada.

Table 11 **Ontario and the G-7, Real Gross Domestic Product Growth, 1989-2002**

	(Per Cent)						
	1989	1990	1991	1992	1993	1994	1995
Ontario	3.4	-1.7	-3.9	0.9	1.0	5.9	3.5
Canada	2.6	0.2	-2.1	0.9	2.3	4.8	2.8
France	4.2	2.6	1.0	1.3	-0.9	1.9	1.8
Germany	3.9	5.7	5.0	2.2	-1.1	2.3	1.7
Italy	2.9	2.0	1.4	0.8	-0.9	2.2	2.9
Japan	5.2	5.2	3.3	1.0	0.3	1.0	1.9
United Kingdom	2.2	0.8	-1.4	0.2	2.5	4.7	2.9
United States	3.5	1.9	-0.2	3.3	2.7	4.0	2.5

Table 11 (continued) (Per Cent)

	1996	1997	1998	1999	2000	2001	2002
Ontario	1.1	4.5	4.8	7.5	5.6	1.8	3.6
Canada	1.6	4.2	4.1	5.5	5.3	1.9	3.3
France	1.1	1.9	3.5	3.2	4.2	1.8	1.2
Germany	0.8	1.4	2.0	2.0	2.9	0.6	0.2
Italy	1.1	2.0	1.8	1.7	3.1	1.8	0.4
Japan	3.4	1.8	-1.1	0.1	2.8	0.4	0.3
United Kingdom	2.6	3.4	2.9	2.4	3.1	2.1	1.9
United States	3.7	4.5	4.2	4.5	3.7	0.5	2.2

Sources: OECD, U.S. Department of Commerce and Statistics Canada.

Table 12**Ontario and the G-7, Employment Growth, 1989-2002**

	(Per Cent)						
	1989	1990	1991	1992	1993	1994	1995
Ontario	2.2	0.0	-3.4	-1.3	0.5	1.3	1.8
Canada	2.2	0.8	-1.8	-0.7	0.8	2.0	1.9
France	1.5	0.8	0.1	-0.7	-1.3	0.4	0.9
Germany	1.9	3.1	2.5	-1.5	-1.4	-0.2	0.2
Italy	-0.1	1.2	0.7	-1.0	-3.1	-1.6	-0.6
Japan	2.0	2.0	1.9	1.1	0.2	0.1	0.1
United Kingdom	2.4	0.3	-3.0	-1.9	-0.9	0.7	1.1
United States	2.0	1.3	-0.9	0.7	1.5	2.3	1.5

Table 12 (continued)

(Per Cent)

	1996	1997	1998	1999	2000	2001	2002
Ontario	1.0	2.6	3.3	3.6	3.2	1.5	1.8
Canada	0.8	2.3	2.7	2.8	2.6	1.1	2.2
France	0.2	0.6	1.7	2.1	2.5	1.6	0.4
Germany	-0.3	-0.2	1.1	1.2	1.8	0.4	-0.6
Italy	0.5	0.4	1.1	1.2	1.9	2.0	1.5
Japan	0.4	1.1	-0.7	-0.8	-0.3	-0.5	-1.3
United Kingdom	0.9	1.7	1.0	1.3	1.1	0.8	0.7
United States	1.5	2.3	1.5	1.5	2.5	0.0	-0.3

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 13 **Ontario and the G-7, Unemployment Rates, 1989-2002**

	(Per Cent)						
	1989	1990	1991	1992	1993	1994	1995
Ontario	5.1	6.2	9.5	10.7	10.9	9.6	8.7
Canada	7.5	8.1	10.3	11.2	11.4	10.3	9.4
France	9.3	8.9	9.4	10.4	11.7	12.0	11.4
Germany	5.2	4.5	5.3	6.2	7.5	8.0	7.7
Italy	10.2	9.1	8.6	8.8	10.2	11.2	11.7
Japan	2.3	2.1	2.1	2.2	2.5	2.9	3.2
United Kingdom	5.9	5.6	8.0	9.9	10.4	9.5	8.6
United States	5.3	5.6	6.8	7.5	6.9	6.1	5.6

Table 13 (continued) (Per Cent)

	1996	1997	1998	1999	2000	2001	2002
Ontario	9.1	8.4	7.2	6.3	5.7	6.3	7.1
Canada	9.6	9.1	8.3	7.6	6.8	7.2	7.7
France	12.0	12.1	11.5	10.7	9.4	8.7	8.9
Germany	8.4	9.2	8.7	8.0	7.3	7.3	7.8
Italy	11.7	11.8	11.9	11.5	10.7	9.6	9.1
Japan	3.4	3.4	4.1	4.7	4.7	5.0	5.4
United Kingdom	8.1	7.0	6.3	6.0	5.5	5.1	5.2
United States	5.4	4.9	4.5	4.2	4.0	4.8	5.8

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 14**Ontario and the G-7, CPI Inflation Rates, 1989-2002**

	(Per Cent)						
	1989	1990	1991	1992	1993	1994	1995
Ontario	5.7	4.9	4.7	1.0	1.8	0.0	2.5
Canada	5.0	4.8	5.6	1.5	1.8	0.2	2.2
France	3.5	3.6	3.2	2.4	2.1	1.7	1.8
Germany	2.8	2.7	4.1	5.1	4.4	2.7	1.7
Italy	6.3	6.5	6.2	5.3	4.6	4.1	5.2
Japan	2.3	3.1	3.2	1.7	1.3	0.7	-0.1
United Kingdom	5.2	7.0	7.5	4.2	2.5	2.0	2.6
United States	4.8	5.4	4.2	3.0	3.0	2.6	2.8

Table 14 (continued)

(Per Cent)

	1996	1997	1998	1999	2000	2001	2002
Ontario	1.5	1.9	0.9	1.9	2.9	3.1	2.0
Canada	1.6	1.6	0.9	1.7	2.7	2.6	2.2
France	2.0	1.2	0.8	0.5	1.7	1.6	1.9
Germany	1.4	1.9	0.9	0.6	1.5	2.0	1.4
Italy	4.0	2.0	2.0	1.7	2.5	2.8	2.5
Japan	0.1	1.7	0.7	-0.3	-0.7	-0.7	-0.9
United Kingdom	2.5	1.8	1.6	1.3	0.8	1.2	1.3
United States	2.9	2.3	1.5	2.2	3.4	2.8	1.6

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 15**G-7, Exchange Rates, 1989-2002**

(Foreign Currency per Canadian Dollar)

	1989	1990	1991	1992	1993	1994	1995
Euro*	-	-	-	-	-	-	-
France	5.389	4.667	4.925	4.380	4.390	4.066	3.637
Germany	1.588	1.385	1.449	1.292	1.282	1.188	1.044
Italy	1158.9	1026.9	1082.8	1019.6	1219.8	1180.7	1186.9
Japan	116.5	124.1	117.6	104.8	86.2	74.8	68.5
United Kingdom	0.516	0.482	0.495	0.471	0.517	0.478	0.462
United States	0.845	0.857	0.873	0.827	0.775	0.732	0.729

Table 15 (continued)

(Foreign Currency per Canadian Dollar)

	1996	1997	1998	1999	2000	2001	2002
Euro*	-	-	-	0.631	0.730	0.721	0.674
France	3.752	4.215	3.977	4.368	4.935	4.748	4.113
Germany	1.104	1.252	1.186	1.302	1.471	1.416	1.226
Italy	1131.6	1230.0	1170.4	1289.3	1456.6	1401.5	1214.0
Japan	79.8	87.4	88.2	76.7	72.6	78.5	79.9
United Kingdom	0.470	0.441	0.407	0.416	0.445	0.449	0.425
United States	0.733	0.722	0.674	0.673	0.673	0.646	0.637

* Introduced January 4, 1999.

Note: All data are annual averages.

Source: Bank of Canada.

Table 16 **Ontario, International Merchandise Exports¹ by Major Commodity², 2002**

	Value (\$ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	78,411	43.4
Machinery and Mechanical Appliances	21,042	11.6
Electrical Machinery and Equipment	8,717	4.8
Plastics and Plastic Articles	7,508	4.2
Non-ferrous Metals and Allied Products	6,456	3.6
Pulp; Paper and Allied Products	6,313	3.5
Furniture and Fixtures, Signs, Prefabricated Buildings	4,898	2.7
Prepared Foodstuffs, Beverages and Tobacco	4,798	2.7
Other Chemical Products	3,574	2.0
Precious Metals, Stones and Coins	3,303	1.8
Articles of Iron and Steel	3,134	1.7
Iron and Steel	3,040	1.7
Wood and Wood Products	2,952	1.6
Mineral Products	2,737	1.5
Scientific, Professional and Photo Equipment, Clocks	2,176	1.2
Aircraft, Spacecraft and Parts	2,025	1.1
Rubber and Rubber Articles	1,952	1.1
Live Animals; Animal Products	1,700	0.9
Vegetable Products; Fats and Oils	1,573	0.9
Articles of Stone, Cement, Ceramic and Glass	1,471	0.8
Textiles and Textile Articles	1,442	0.8
Pharmaceutical Products	1,369	0.8
Organic Chemicals	1,354	0.7
Inorganic Chemicals; Chemical Elements and Compounds	1,173	0.6
Printed Matter	998	0.6
Apparel and Clothing Accessories	707	0.4
Railway, Rolling Stock and Parts	428	0.2
Toys, Games and Sports Equipment	370	0.2
Hides, Leather, Travel Goods and Furs	364	0.2
Other Textile and Clothing Articles	219	0.1
Miscellaneous Articles; Works of Art	202	0.1
Ships, Boats and Floating Structures	82	0.0
Headgear, Umbrellas, Artificial Flowers	57	0.0
Footwear	31	0.0
Other Commodities ³	4,225	2.3
Total Exports	180,800	100.0

Notes:

1. Domestic exports exclude re-exports.
2. Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.
3. Other Commodities includes special transactions.

Source: Industry Canada.

Table 17 **Ontario, International Merchandise Imports by Major Commodity¹, 2002**

	Value (\$ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	52,563	23.4
Machinery and Mechanical Appliances	42,635	19.0
Electrical Machinery and Equipment	25,125	11.2
Plastics and Plastic Articles	9,160	4.1
Scientific, Professional and Photo Equipment, Clocks	8,411	3.7
Other Chemical Products	8,267	3.7
Non-ferrous Metals and Allied Products	7,665	3.4
Prepared Foodstuffs, Beverages and Tobacco	5,740	2.6
Pharmaceutical Products	5,155	2.3
Articles of Iron and Steel	4,707	2.1
Pulp; Paper and Allied Products	4,642	2.1
Vegetable Products; Fats and Oils	4,317	1.9
Furniture and Fixtures, Signs, Prefabricated Buildings	3,921	1.7
Rubber and Rubber Articles	3,721	1.7
Iron and Steel	3,619	1.6
Organic Chemicals	3,255	1.4
Articles of Stone, Cement, Ceramic and Glass	3,131	1.4
Mineral Products	2,862	1.3
Textiles and Textile Articles	2,812	1.3
Printed Matter	2,436	1.1
Apparel and Clothing Accessories	2,344	1.0
Toys, Games and Sports Equipment	2,172	1.0
Aircraft, Spacecraft and Parts	2,056	0.9
Precious Metals, Stones and Coins	1,947	0.9
Live Animals; Animal Products	1,808	0.8
Wood and Wood Products	1,495	0.7
Inorganic Chemicals; Chemical Elements and Compounds	1,055	0.5
Footwear	752	0.3
Hides, Leather, Travel Goods and Furs	740	0.3
Miscellaneous Articles; Works of Art	714	0.3
Other Textile and Clothing Articles	551	0.2
Railway, Rolling Stock and Parts	475	0.2
Ships, Boats and Floating Structures	206	0.1
Headgear, Umbrellas, Artificial Flowers	157	0.1
Other Commodities ²	4,010	1.8
Total Imports	224,624	100.0

Notes:

1. Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.
2. Other Commodities includes trans-shipments from one province to another through a foreign jurisdiction and special transactions.

Source: Industry Canada.

Table 18**Ontario, International Merchandise Trade by Major Region, 2002**

	Exports (\$ Millions)	Per Cent of Total	Imports (\$ Millions)	Per Cent of Total
United States	168,661	93.3	162,908	72.5
Western Europe	5,846	3.2	17,479	7.8
European Union	4,972	2.7	16,264	7.2
Other Western Europe	873	0.5	1,215	0.5
Eastern Europe	300	0.2	769	0.3
Asia	2,861	1.6	24,971	11.1
Oceania (Pacific)	497	0.3	739	0.3
Pacific Rim	3,236	1.8	24,771	11.0
Caribbean	267	0.1	175	0.1
Latin America	1,495	0.8	13,098	5.8
Mexico	1,026	0.6	10,645	4.7
Middle East	577	0.3	661	0.3
Africa	295	0.2	392	0.2
Re-imports (Canada)	0	0.0	3,431	1.5
Total	180,800	100.0	224,624	100.0

Note: Data are customs based and do not include re-exports.

Source: Industry Canada.

Table 19**Canada, International Merchandise Trade by Major Region, 2002**

	Exports (\$ Millions)	Per Cent of Total	Imports (\$ Millions)	Per Cent of Total
United States	317,013	86.8	218,311	62.6
Western Europe	18,002	4.9	44,525	12.8
European Union	16,534	4.5	39,008	11.2
Other Western Europe	1,468	0.4	5,516	1.6
Eastern Europe	724	0.2	1,607	0.5
Asia	19,223	5.3	50,734	14.6
Oceania (Pacific)	1,275	0.3	2,301	0.7
Pacific Rim	19,634	5.4	50,928	14.6
Caribbean	932	0.3	944	0.3
Latin America	4,732	1.3	18,687	5.4
Mexico	2,294	0.6	12,729	3.7
Middle East	1,667	0.5	3,059	0.9
Africa	1,639	0.4	3,138	0.9
Re-imports (Canada)	-	0.0	5,367	1.5
Total	365,208	100.0	348,672	100.0

Note: Data are customs based and do not include re-exports.

Source: Industry Canada.

Table 20 **Ontario, Selected Demographic Characteristics, 1986-2003¹**

	Intercensal Estimates ²			Postcensal Estimates ²		
	1986	1991	1996	2001	2002	2003
Total Population (000s)	9,438	10,428	11,083	11,898	12,097	12,238
Annual Average Growth						
Over Preceding Year Shown (%)	1.4	2.0	1.2	1.4	1.7	1.2
Median Age (Years)	31.9	33.3	35.0	36.7	NA	NA
Age Group Shares (%)						
0-4	6.8	7.0	6.8	6.0	5.8	5.7
5-14	13.4	13.1	13.5	13.5	13.3	13.2
15-24	17.1	14.5	13.2	13.4	13.4	13.5
25-44	32.1	34.2	32.9	31.5	31.3	30.9
45-64	19.8	19.6	21.3	23.2	23.6	24.2
65-74	6.5	7.0	7.3	7.0	6.9	6.9
75+	4.2	4.6	5.0	5.6	5.7	5.8
Total Fertility Rate ³	1.6	1.7	1.6	1.5	NA	NA
Life Expectancy (Years) ³						
Female	80.0	80.8	81.3	82.2	NA	NA
Male	73.7	75.0	75.9	77.5	NA	NA
Families (000s) ⁴	2,445	2,727	2,933	3,191	NA	NA
Households (000s) ⁴	3,222	3,638	3,925	4,219	NA	NA

Notes:

1. Population figures are for July (census year).

2. Estimates by Statistics Canada based on the 2001 Census adjusted for net Census undercoverage.

3. Calendar-year data.

4. Families and Households are Census data.

Source: Statistics Canada.

Table 21 **Ontario, Components of Population Growth, 1993-94 to 2002-03¹**

	(Thousands)				
	1993-94	1994-95	1995-96	1996-97	1997-98
Population at Beginning of Period	10,688	10,818	10,950	11,083	11,228
Births	147.1	147.2	143.1	136.3	133.2
Deaths	77.3	78.2	77.7	80.4	80.1
Immigrants	120.2	119.7	116.0	119.4	106.4
Net Emigrants ³	27.5	26.1	25.2	27.1	25.6
Net Change in Non-permanent Residents	-12.0	-16.9	-9.7	-3.2	-2.6
Interprovincial Arrivals	64.6	66.9	69.1	70.0	75.2
Interprovincial Departures	74.0	69.7	71.9	68.0	66.0
Population Growth During Period	129.9	131.7	133.1	145.2	138.7
Population at End of Period²	10,818	10,950	11,083	11,228	11,367
Population Growth (%)	1.2	1.2	1.2	1.3	1.2

Table 21 (continued) **(Thousands)**

	1998-99	1999-00	2000-01	2001-02	2002-03
Population at Beginning of Period	11,367	11,506	11,685	11,898	12,097
Births	130.8	131.1	127.7	132.1	131.9
Deaths	80.3	81.1	81.1	82.5	86.0
Immigrants	91.9	116.7	150.0	152.8	110.0
Net Emigrants ³	24.4	24.1	22.7	22.7	22.8
Net Change in Non-permanent Residents	6.4	15.8	21.3	13.9	10.3
Interprovincial Arrivals	72.8	78.9	74.5	70.1	70.9
Interprovincial Departures	56.1	56.5	55.9	64.7	72.7
Population Growth During Period	139.3	179.0	212.3	199.0	141.7
Population at End of Period²	11,506	11,685	11,898	12,097	12,238
Population Growth (%)	1.2	1.6	1.8	1.7	1.2

Notes:

1. Data are from July 1 to June 30 (census year).
2. The sum of the components does not equal the total change in population due to residual deviation.
3. Net emigrants = Emigrants plus temporarily abroad minus returning emigrants.

Source: Statistics Canada. Estimates based on the 2001 Census adjusted for net Census undercoverage.

Table 22**Ontario, Labour Force, 1989-2002**

	1989	1990	1991	1992	1993	1994	1995
Labour Force (000s)	5,470	5,533	5,544	5,542	5,581	5,574	5,620
Annual Labour Force Growth (%)	2.2	1.2	0.2	0.0	0.7	-0.1	0.8
Participation Rate (%)							
Male	78.8	78.0	76.4	75.1	74.4	73.5	72.9
Female	61.3	61.4	61.0	60.0	59.5	58.8	58.7
Share of Labour Force (%)							
Youth (15-24)	20.6	19.6	18.6	18.1	17.3	16.8	16.4
Older Workers (45+)	26.0	26.3	26.6	27.4	28.0	28.8	29.1

Table 22 (continued)

	1996	1997	1998	1999	2000	2001	2002
Labour Force (000s)	5,695	5,801	5,914	6,071	6,228	6,364	6,532
Annual Labour Force Growth (%)	1.3	1.9	1.9	2.6	2.6	2.2	2.6
Participation Rate (%)							
Male	72.6	72.8	72.6	73.2	73.4	73.5	74.1
Female	58.9	59.1	59.7	60.4	61.2	61.4	61.9
Share of Labour Force (%)							
Youth (15-24)	16.2	15.9	15.7	16.0	16.1	15.9	16.0
Older Workers (45+)	29.5	30.2	30.6	31.3	32.0	32.5	33.4

Source: Statistics Canada.

Table 23 **Ontario, Employment, 1989-2002**

	1989	1990	1991	1992	1993	1994	1995
Total Employment (000s)	5,193	5,191	5,016	4,949	4,974	5,039	5,131
Male	2,875	2,851	2,717	2,661	2,688	2,729	2,777
Female	2,318	2,340	2,299	2,288	2,286	2,311	2,353
Annual Employment Growth (%)	2.2	0.0	-3.4	-1.3	0.5	1.3	1.8
Net Job Creation (000s)	111	-2	-176	-67	25	65	91
Private-sector Employment (000s)	3,567	3,542	3,337	3,237	3,209	3,274	3,395
Public-sector Employment (000s)	998	1,013	1,022	1,039	1,042	1,033	1,004
Self-employment (000s)	629	636	657	673	723	733	732
Manufacturing Employment (% of total)	20.1	19.2	18.0	17.3	16.5	16.6	17.1
Services Employment (% of total)	68.9	70.0	71.7	72.7	73.8	74.0	73.7
Part-time (% of total)	16.7	17.1	18.3	18.6	19.7	19.0	18.8
Average Hours Worked Per Week ¹	38.5	38.1	37.3	36.7	37.2	37.6	37.2

Table 23 (continued)	1996	1997	1998	1999	2000	2001	2002
Total Employment (000s)	5,181	5,313	5,490	5,688	5,872	5,963	6,068
Male	2,798	2,879	2,952	3,058	3,146	3,184	3,237
Female	2,383	2,435	2,538	2,630	2,726	2,779	2,831
Annual Employment Growth (%)	1.0	2.6	3.3	3.6	3.2	1.5	1.8
Net Job Creation (000s)	50	133	177	198	184	91	105
Private-sector Employment (000s)	3,459	3,526	3,687	3,828	3,972	4,091	4,150
Public-sector Employment (000s)	963	939	941	964	987	988	1,038
Self-employment (000s)	758	849	862	896	913	884	880
Manufacturing Employment (% of total)	17.4	17.7	18.0	18.4	18.7	18.2	18.5
Services Employment (% of total)	73.6	73.4	73.2	72.7	72.7	73.1	73.0
Part-time (% of total)	19.3	19.2	18.6	18.0	17.9	17.8	18.1
Average Hours Worked Per Week ¹	37.6	37.8	37.8	37.9	38.1	37.5	37.4

Note:

1. Average actual hours worked per week at all jobs, excluding persons not at work, in reference week.

Source: Statistics Canada.

Table 24**Ontario, Unemployment, 1989-2002**

	1989	1990	1991	1992	1993	1994	1995
Total Unemployment (000s)	276	342	528	593	607	535	489
Unemployment Rate (%)	5.1	6.2	9.5	10.7	10.9	9.6	8.7
Male	4.8	6.2	10.0	11.9	11.5	10.0	8.9
Female	5.4	6.1	8.9	9.3	10.1	9.1	8.5
Toronto CMA ¹	4.0	5.2	9.5	11.2	11.4	10.4	8.6
Northern Ontario	7.3	8.1	11.4	12.6	12.4	11.6	9.9
Youth (15-24)	7.7	10.0	15.0	17.4	17.5	15.5	14.6
Older Workers (45+)	3.3	4.0	6.8	7.4	7.6	7.0	6.5
Unemployment (% of total)							
Long-term (27 weeks+)	13.2	13.7	22.5	29.7	33.4	32.3	29.4
Youth (15-24)	31.3	31.7	29.3	29.5	27.8	27.1	27.5
Older Workers (45+)	17.0	16.9	19.0	19.0	19.5	21.1	21.7
Average Duration (weeks) ²	13.5	13.7	18.5	23.3	26.9	27.5	25.8
Youth (15-24)	8.4	10.0	13.5	16.6	18.4	17.8	16.2
Older Workers (45+)	19.5	18.9	22.7	29.7	33.7	34.6	33.4

Table 24 (continued)

	1996	1997	1998	1999	2000	2001	2002
Total Unemployment (000s)	515	488	424	383	356	402	464
Unemployment Rate (%)	9.0	8.4	7.2	6.3	5.7	6.3	7.1
Male	9.0	8.2	7.1	6.2	5.5	6.4	7.3
Female	9.0	8.7	7.2	6.4	5.9	6.2	6.8
Toronto CMA ¹	9.1	8.0	7.0	6.1	5.5	6.3	7.4
Northern Ontario	10.7	10.4	11.0	9.0	8.2	7.9	8.0
Youth (15-24)	14.9	16.4	14.4	13.1	11.8	12.5	13.9
Older Workers (45+)	6.4	5.9	5.3	4.2	4.0	4.4	4.7
Unemployment (% of total)							
Long-term (27 weeks+)	28.3	25.5	21.8	19.0	15.4	12.9	15.8
Youth (15-24)	26.6	30.9	31.5	33.3	33.1	31.6	31.3
Older Workers (45+)	20.8	21.3	22.6	20.7	22.4	22.9	22.0
Average Duration (weeks) ²	24.8	26.6	23.2	21.2	17.8	15.4	16.5
Youth (15-24)	15.4	13.7	12.7	11.5	9.8	8.7	9.6
Older Workers (45+)	31.1	42.6	39.2	33.6	28.1	25.8	24.2

Notes:

1. CMA is Census Metropolitan Area. Toronto CMA includes the City of Toronto; the Regions of York, Peel and Halton (excluding Burlington); Uxbridge, Pickering, Ajax, Mono, Orangeville, New Tecumseth and Bradford West Gwillimbury.
2. Prior to 1997, unemployment of 100 or more weeks was recorded as 99 due to data processing limitations. This restriction was removed for data after 1996.

Source: Statistics Canada.

Table 25 **Ontario, Employment Insurance (EI) and Social Assistance, 1989-2002**

	1989	1990	1991	1992	1993	1994	1995
EI Regular Beneficiaries (000s)	167	225	319	322	294	228	181
EI Maximum Insurable Earnings (\$)¹	605	640	680	710	745	780	815
EI Maximum Weekly Entitlement (\$)	363	384	408	426	425	429	448
EI Premium Rate							
Employer (\$/\$100 Insurable Earnings)	2.73	3.15	3.15/3.92²	4.20	4.20	4.30	4.20
Employee (\$/\$100 Insurable Earnings)	1.95	2.25	2.25/2.80²	3.00	3.00	3.07	3.00
EI Total Benefits Paid (\$ millions)³	2,470	3,419	5,362	5,845	5,406	4,511	3,796
EI Premiums Paid (\$ millions)³	4,359	5,432	6,220	7,353	7,567	8,067	7,929
Social Assistance Caseload (000s)⁵	307	366	499	608	660	673	660

Table 25 (continued)	1996	1997	1998	1999	2000	2001	2002
EI Regular Beneficiaries (000s)	180	151	131	110	101	122	136
EI Maximum Insurable Earnings (\$)¹	750	39,000	39,000	39,000	39,000	39,000	39,000
EI Maximum Weekly Entitlement (\$)	413	413	413	413	413	413	413
EI Premium Rate							
Employer (\$/\$100 Insurable Earnings)	4.13	4.06	3.78	3.57	3.36	3.15	3.08
Employee (\$/\$100 Insurable Earnings)	2.95	2.90	2.70	2.55	2.40	2.25	2.20
EI Total Benefits Paid (\$ millions)³	3,653	3,436	3,141	3,051	2,787	3,524	4,328
EI Premiums Paid (\$ millions)³	7,582	8,173	7,679	7,614	7,668	7,477	7,549⁴
Social Assistance Caseload (000s)⁵	599	568	529	479	436	408	411

Notes:

1. Effective January 1, 1997, the maximum weekly insurable earnings of \$750 was eliminated and replaced with an annual maximum set at \$39,000.
2. Premium rates for 1991 changed at mid-year.
3. Employment Insurance benefit payments are on a cash basis; premiums are paid on an accrual basis.
4. Premiums paid in 2002 are Ontario Ministry of Finance estimates.
5. The number of social assistance cases from 1998 to 2002 includes recipients of the Ontario Works program, the Ontario Disability Support Program, Temporary Care Assistance and the Assistance for Children with Severe Disabilities program. The *Ontario Works Act* was proclaimed in May 1998 and replaced the *General Welfare Act*. The *Ontario Disability Support Program Act* was proclaimed in June 1998.

Sources: Statistics Canada, Human Resources Development Canada, Ontario Ministry of Finance and Ontario Ministry of Community and Social Services.

Table 26	Ontario, Labour Compensation, 1989-2002						
	1989	1990	1991	1992	1993	1994	1995
Average Weekly Earnings (\$)¹	NA	NA	576.25	598.97	612.10	627.81	633.80
Increase (%)	NA	NA	NA	3.9	2.2	2.6	1.0
CPI Inflation (%)	5.7	4.9	4.7	1.0	1.8	0.0	2.5
AWE Increase Less CPI Inflation (%)	NA	NA	NA	2.9	0.4	2.6	-1.5
AWE - Manufacturing (\$)	NA	NA	683.30	716.55	739.20	761.95	770.80
Increase (%)	NA	NA	NA	4.9	3.2	3.1	1.2
Increase Less CPI Inflation (%)	NA	NA	NA	3.9	1.4	3.1	-1.3
Wage Settlement Increases (%)²							
All Sectors	5.6	5.9	4.7	2.7	1.0	0.4	1.0
Public	5.8	6.9	5.0	2.6	0.5	0.1	0.2
Private	5.0	5.2	3.8	2.7	1.9	1.1	1.7
Person Days Lost Due to Strikes and Lockouts (000s)	869	2,958	454	578	371	488	477
Minimum Wage at Year-end (\$/hour)	5.00	5.40	6.00	6.35	6.35	6.70	6.85

Table 26 (continued)	1996	1997	1998	1999	2000	2001	2002
Average Weekly Earnings (\$)¹	649.09	663.24	672.11	683.01	699.20	712.89	726.15
Increase (%)	2.4	2.2	1.3	1.6	2.4	2.0	1.9
CPI Inflation (%)	1.5	1.9	0.9	1.9	2.9	3.1	2.0
AWE Increase Less CPI Inflation (%)	0.9	0.3	0.4	-0.3	-0.5	-1.1	-0.1
AWE - Manufacturing (\$)	794.09	821.28	841.78	852.13	869.40	882.76	906.10
Increase (%)	3.0	3.4	2.5	1.2	2.0	1.5	2.6
Increase Less CPI Inflation (%)	1.5	1.5	1.6	-0.7	-0.9	-1.6	0.6
Wage Settlement Increases (%)²							
All Sectors	1.1	1.2	1.6	2.1	2.6	3.0	2.9
Public	0.3	0.7	1.3	1.4	2.7	2.9	2.9
Private	2.2	2.3	2.1	3.1	2.4	3.0	3.0
Person Days Lost Due to Strikes and Lockouts (000s)	1,915	1,904	1,061	651	650	672	1,511
Minimum Wage at Year-end (\$/hour)	6.85	6.85	6.85	6.85	6.85	6.85	6.85

Notes:

1. Average Weekly Earnings (AWE) includes overtime. In 2001, Statistics Canada changed its estimates of AWE from the 1980 Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS). AWE based on NAICS is available only back to 1991.
2. Wage settlement increases are for collective agreements covering 200 or more employees, Ontario Ministry of Labour.

Sources: Statistics Canada, Ontario Ministry of Labour and Ontario Ministry of Finance.

Table 27	Ontario, Employment by Occupation, 1991-2002					
	(Thousands)					
	1991	1992	1993	1994	1995	1996
Management	516	494	523	507	547	537
Business, Finance and Administrative	1,038	1,033	993	997	1,009	995
Natural and Applied Sciences	277	264	256	260	284	285
Health	249	243	260	258	256	250
Social Science, Education, Government Service and Religion	318	343	340	374	342	341
Art, Culture, Recreation and Sport	122	128	139	150	143	148
Sales and Service	1,161	1,174	1,207	1,197	1,223	1,255
Trades, Transport and Equipment Operators	742	703	701	715	732	743
Primary Industry	151	148	153	148	145	142
Processing, Manufacturing and Utilities	442	419	403	435	450	485
Total	5,016	4,949	4,974	5,039	5,131	5,181

Table 27 (continued)	(Thousands)					
	1997	1998	1999	2000	2001	2002
Management	548	552	550	566	557	566
Business, Finance and Administrative	993	1,031	1,054	1,079	1,131	1,136
Natural and Applied Sciences	314	345	389	423	448	440
Health	265	260	272	279	282	306
Social Science, Education, Government Service and Religion	345	359	390	401	404	412
Art, Culture, Recreation and Sport	148	155	169	172	180	172
Sales and Service	1,264	1,316	1,351	1,408	1,434	1,465
Trades, Transport and Equipment Operators	779	798	792	806	823	846
Primary Industry	145	139	153	142	131	124
Processing, Manufacturing and Utilities	512	536	569	597	573	602
Total	5,313	5,490	5,688	5,872	5,963	6,068

Note: Occupational groupings based on Standard Occupational Classification 1991 (SOC91).

Source: Statistics Canada.

Table 28 **Ontario, Distribution of Employment by Occupation, 1991-2002**

	(Per Cent)					
	1991	1992	1993	1994	1995	1996
Management	10.3	10.0	10.5	10.1	10.7	10.4
Business, Finance and Administrative	20.7	20.9	20.0	19.8	19.7	19.2
Natural and Applied Sciences	5.5	5.3	5.1	5.1	5.5	5.5
Health	5.0	4.9	5.2	5.1	5.0	4.8
Social Science, Education, Government Service and Religion	6.3	6.9	6.8	7.4	6.7	6.6
Art, Culture, Recreation and Sport	2.4	2.6	2.8	3.0	2.8	2.9
Sales and Service	23.1	23.7	24.3	23.8	23.8	24.2
Trades, Transport and Equipment Operators	14.8	14.2	14.1	14.2	14.3	14.3
Primary Industry	3.0	3.0	3.1	2.9	2.8	2.7
Processing, Manufacturing and Utilities	8.8	8.5	8.1	8.6	8.8	9.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 28 (continued) (Per Cent)

	1997	1998	1999	2000	2001	2002
Management	10.3	10.1	9.7	9.6	9.3	9.3
Business, Finance and Administrative	18.7	18.8	18.5	18.4	19.0	18.7
Natural and Applied Sciences	5.9	6.3	6.8	7.2	7.5	7.2
Health	5.0	4.7	4.8	4.7	4.7	5.0
Social Science, Education, Government Service and Religion	6.5	6.5	6.9	6.8	6.8	6.8
Art, Culture, Recreation and Sport	2.8	2.8	3.0	2.9	3.0	2.8
Sales and Service	23.8	24.0	23.7	24.0	24.0	24.1
Trades, Transport and Equipment Operators	14.7	14.5	13.9	13.7	13.8	13.9
Primary Industry	2.7	2.5	2.7	2.4	2.2	2.0
Processing, Manufacturing and Utilities	9.6	9.8	10.0	10.2	9.6	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: Occupational groupings based on Standard Occupational Classification 1991 (SOC91).

Source: Statistics Canada.

Table 29**Ontario, Employment by Industry, 1993-2002**

	(Thousands)				
	1993	1994	1995	1996	1997
Goods Producing Industries	1,302	1,312	1,348	1,366	1,412
Primary Industries	159	155	152	151	143
Agriculture	114	112	107	105	103
Manufacturing	822	838	878	904	939
Construction	264	271	269	261	282
Utilities	57	49	49	50	48
Services Producing Industries	3,672	3,727	3,782	3,815	3,902
Trade	778	771	767	783	802
Transportation and Warehousing	221	236	242	244	248
Finance, Insurance, Real Estate and Leasing	367	355	365	372	377
Professional, Scientific and Technical Services	270	282	302	313	350
Management, Administrative and Other Support	152	158	174	181	194
Educational Services	356	364	358	340	340
Health Care and Social Assistance	496	503	510	503	495
Information, Culture and Recreation	209	223	233	232	248
Accommodation and Food Services	281	288	293	315	316
Public Administration	318	314	305	290	279
Other Services	225	234	235	242	251
Total Employment	4,974	5,039	5,131	5,181	5,313

Table 29 (continued)**Ontario, Employment by Industry, 1993-2002**

(Thousands)

	1998	1999	2000	2001	2002
Goods Producing Industries	1,469	1,550	1,602	1,602	1,636
Primary Industries	144	152	133	122	111
Agriculture	106	114	98	84	76
Manufacturing	989	1,049	1,099	1,088	1,120
Construction	288	300	324	343	354
Utilities	49	50	46	50	51
Services Producing Industries	4,021	4,138	4,271	4,361	4,433
Trade	813	850	874	924	921
Transportation and Warehousing	261	260	278	276	285
Finance, Insurance, Real Estate and Leasing	376	384	385	395	398
Professional, Scientific and Technical Services	372	397	424	437	436
Management, Administrative and Other Support	210	224	246	249	255
Educational Services	347	368	369	358	379
Health Care and Social Assistance	518	518	544	553	564
Information, Culture and Recreation	243	257	282	299	288
Accommodation and Food Services	335	340	343	342	364
Public Administration	284	286	274	275	291
Other Services	262	254	252	254	253
Total Employment	5,490	5,688	5,872	5,963	6,068

Note: Industrial groupings based on North American Industry Classification System (NAICS).

Source: Statistics Canada.

Table 30 **Ontario, Growth in Employment by Industry, 1993-2002**

	(Per Cent Change)				
	1993	1994	1995	1996	1997
Goods Producing Industries	-3.7	0.8	2.7	1.3	3.4
Primary Industries	-1.5	-2.5	-1.8	-0.9	-5.5
Agriculture	3.3	-2.2	-4.3	-1.5	-2.5
Manufacturing	-4.2	2.0	4.8	2.9	3.9
Construction	-1.9	2.5	-0.7	-2.6	8.0
Utilities	-11.5	-13.9	0.6	1.6	-3.2
Services Producing Industries	2.1	1.5	1.5	0.9	2.3
Trade	1.6	-0.9	-0.6	2.2	2.4
Transportation and Warehousing	4.5	6.6	2.8	0.6	1.8
Finance, Insurance, Real Estate and Leasing	0.0	-3.4	2.8	2.2	1.3
Professional, Scientific and Technical Services	1.1	4.4	7.0	3.8	11.7
Management, Administrative and Other Support	5.7	3.8	9.9	4.0	7.4
Educational Services	3.0	2.2	-1.7	-5.0	0.0
Health Care and Social Assistance	2.5	1.5	1.4	-1.4	-1.5
Information, Culture and Recreation	3.4	6.7	4.6	-0.5	7.0
Accommodation and Food Services	1.3	2.5	1.8	7.4	0.6
Public Administration	0.2	-1.4	-2.8	-4.9	-3.7
Other Services	4.1	4.2	0.4	3.1	3.5
Total Employment	0.5	1.3	1.8	1.0	2.6

Table 30 (continued) **Ontario, Growth in Employment by Industry, 1993-2002**
(Per Cent Change)

	1998	1999	2000	2001	2002
Goods Producing Industries	4.1	5.5	3.3	0.0	2.1
Primary Industries	1.1	5.6	-12.7	-8.5	-8.8
Agriculture	3.1	7.9	-14.4	-14.2	-8.7
Manufacturing	5.4	6.0	4.8	-1.0	3.0
Construction	1.8	4.4	7.8	6.1	3.1
Utilities	1.0	1.2	-6.3	7.1	2.4
Services Producing Industries	3.0	2.9	3.2	2.1	1.7
Trade	1.4	4.5	2.8	5.7	-0.3
Transportation and Warehousing	5.3	-0.5	7.0	-0.7	3.1
Finance, Insurance, Real Estate and Leasing	-0.5	2.3	0.3	2.4	0.9
Professional, Scientific and Technical Services	6.3	6.5	6.8	3.1	-0.2
Management, Administrative and Other Support	8.0	7.0	9.5	1.5	2.2
Educational Services	2.1	6.2	0.2	-3.0	5.7
Health Care and Social Assistance	4.6	0.0	5.0	1.5	2.0
Information, Culture and Recreation	-2.1	5.7	9.9	6.1	-3.6
Accommodation and Food Services	5.8	1.6	0.7	-0.3	6.5
Public Administration	1.6	0.6	-4.0	0.3	6.0
Other Services	4.6	-3.3	-0.8	0.9	-0.5
Total Employment	3.3	3.6	3.2	1.5	1.8

Note: Industrial groupings based on North American Industry Classification System (NAICS).

Source: Statistics Canada.

Table 31 **Ontario, Employment Level by Economic Regions, 1992-2003²**

	(Thousands)					
	1992	1993	1994	1995	1996	1997
Ontario	4,949	4,974	5,039	5,131	5,181	5,313
Region:*						
East	682	683	701	674	674	685
Ottawa (510)	508	503	521	501	508	516
Kingston-Pembroke (515)	174	180	180	172	166	170
Greater Toronto Area (530)¹	2,104	2,118	2,115	2,215	2,242	2,348
Central	1,149	1,139	1,173	1,194	1,209	1,230
Muskoka-Kawartha (520)	140	136	137	148	148	150
Kitchener-Waterloo-Barrie (540)	450	458	470	469	478	496
Hamilton-Niagara Peninsula (550)	559	546	567	577	583	584
Southwest	676	689	705	686	699	704
London (560)	275	285	288	285	278	283
Windsor-Sarnia (570)	266	267	274	271	279	277
Stratford-Bruce Peninsula (580)	135	137	143	130	142	145
North	337	344	345	362	357	345
Northeast (590)	233	238	237	248	247	241
Northwest (595)	104	106	108	114	110	105

Table 31 (continued) (Thousands)

	1998	1999	2000	2001	2002	2003 ²
Ontario	5,490	5,688	5,872	5,963	6,068	6,224
Region:*						
East	726	750	757	776	787	807
Ottawa (510)	543	555	573	587	592	615
Kingston-Pembroke (515)	183	195	184	189	195	193
Greater Toronto Area (530)¹	2,426	2,511	2,616	2,689	2,743	2,813
Central	1,276	1,322	1,371	1,374	1,401	1,457
Muskoka-Kawartha (520)	152	161	165	157	159	176
Kitchener-Waterloo-Barrie (540)	515	543	552	562	584	598
Hamilton-Niagara Peninsula (550)	609	618	654	655	659	683
Southwest	714	744	763	757	767	773
London (560)	286	299	307	304	306	314
Windsor-Sarnia (570)	286	296	304	305	311	312
Stratford-Bruce Peninsula (580)	142	149	152	148	150	148
North	348	361	366	366	370	373
Northeast (590)	244	249	253	256	255	254
Northwest (595)	105	112	113	110	115	118

* Standard deviations vary significantly across regions, decreasing as the size of the region increases.

Notes:

All figures are average annual employment levels.

1. Economic region of Toronto (530) closely matches the GTA, except that it excludes the City of Burlington.

2. Figures are year-to-date averages of the first 11 months of 2003.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 32 **Ontario, Employment Level by Industry for Economic Regions, 2002**
(Thousands)

	All Industries	Agriculture	Resources ¹	Manu- facturing
Ontario	6,068	76	34	1,120
Region:				
East	787	12	2	88
Ottawa (510)	592	9	1	59
Kingston-Pembroke (515)	195	3	1	29
Greater Toronto Area (530)	2,743	8	5	526
Central	1,401	30	2	291
Muskoka-Kawarthas (520)	159	5	0	24
Kitchener-Waterloo-Barrie (540)	584	10	1	138
Hamilton-Niagara Peninsula (550)	659	15	1	129
Southwest	767	24	3	173
London (560)	306	9	0	59
Windsor-Sarnia (570)	311	7	2	84
Stratford-Bruce Peninsula (580)	150	8	1	30
North	370	3	23	41
Northeast (590)	255	3	14	28
Northwest (595)	115	0	9	14

Table 32 (continued) (Thousands)

	Construction	Distributive ²	Finance, Prof. & Mgmt. ³	Info., Culture & Recreation ⁴
Ontario	354	560	1,089	288
Region:				
East	45	54	130	39
Ottawa (510)	31	39	105	32
Kingston-Pembroke (515)	15	15	25	7
Greater Toronto Area (530)	147	283	639	147
Central	92	124	188	61
Muskoka-Kawarthas (520)	13	17	14	9
Kitchener-Waterloo-Barrie (540)	41	49	83	22
Hamilton-Niagara Peninsula (550)	37	57	91	31
Southwest	47	67	94	27
London (560)	17	28	49	9
Windsor-Sarnia (570)	17	23	31	14
Stratford-Bruce Peninsula (580)	13	16	13	4
North	24	32	38	14
Northeast (590)	17	21	27	10
Northwest (595)	7	11	11	4

Table 32 (continued) Ontario, Employment Level by Industry for Economic Regions, 2002

	(Thousands)		
	Retail Trade	Personal Services ⁵	Education
Ontario	697	616	379
Region:			
East	87	82	54
Ottawa (510)	60	59	38
Kingston-Pembroke (515)	27	23	16
Greater Toronto Area (530)	292	251	156
Central	173	155	94
Muskoka-Kawartha (520)	21	20	8
Kitchener-Waterloo-Barrie (540)	66	60	42
Hamilton-Niagara Peninsula (550)	86	76	44
Southwest	93	82	46
London (560)	34	30	21
Windsor-Sarnia (570)	36	36	17
Stratford-Bruce Peninsula (580)	23	17	8
North	52	46	28
Northeast (590)	38	31	19
Northwest (595)	14	15	9

	(Thousands)	
	Health & Soc. Assistance	Public Administration
Ontario	563	291
Region:		
East	84	111
Ottawa (510)	60	99
Kingston-Pembroke (515)	24	12
Greater Toronto Area (530)	207	83
Central	136	54
Muskoka-Kawartha (520)	17	9
Kitchener-Waterloo-Barrie (540)	51	20
Hamilton-Niagara Peninsula (550)	67	26
Southwest	88	22
London (560)	40	10
Windsor-Sarnia (570)	34	9
Stratford-Bruce Peninsula (580)	14	4
North	48	21
Northeast (590)	34	14
Northwest (595)	15	7

All figures are average annual employment levels.

Sub-regional figures may not add up to regional totals due to rounding.

Employment numbers under 1,500 are suppressed because they are statistically unreliable.

See standard deviation and GTA note for Table 32.

Industrial groupings based on North American Industry Classification System (NAICS).

Notes:

1. Includes Forestry, Fishing, Mining, Oil and Gas.
2. Includes Transportation and Warehousing, Utilities and Wholesale Trade.
3. Includes Finance, Insurance, Real Estate and Leasing; Management of Companies, Administrative and Support Services; and Professional, Scientific and Technical Services.
4. Information, Culture and Recreation includes industries such as Publishing, Motion Picture and Sound Recording, Broadcasting and Telecommunications, Information Services and Data Processing Services, Performing Arts, Spectator Sports and Related Industries, Heritage Institutions and Amusement, Gambling and Recreation.
5. Includes Accommodation and Food Services and Other Services (such as Repair and Maintenance, Personal and Laundry, Religious, Grant-making, Civic, Professional and Similar Organizations).

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 33**Ontario Economic Regions¹****East**

Ottawa (510)	The united counties of Stormont, Dundas and Glengarry, Prescott and Russell, Leeds and Grenville, the county of Lanark and the Ottawa Division
Kingston-Pembroke (515)	The counties of Lennox and Addington, Hastings, Renfrew and Frontenac and the Prince Edward Division

Central

Muskoka-Kawarthas (520)	The counties of Northumberland, Peterborough, Haliburton, the Muskoka District Municipality and the Kawartha Lakes Division
Kitchener-Waterloo-Barrie (540)	The counties of Dufferin, Wellington and Simcoe and the Waterloo Regional Municipality
Hamilton-Niagara Peninsula (550)	The county of Brant, the Regional Municipalities of Niagara, Haldimand-Norfolk, the Hamilton Division and the City of Burlington in Halton Regional Municipality

Greater Toronto Area ²

Toronto (530)	Toronto Division, the Regional Municipalities of Durham, York, Peel and Halton (excluding the City of Burlington)
---------------	---

Southwest

London (560)	The counties of Oxford, Elgin and Middlesex
Windsor-Sarnia (570)	The counties of Lambton and Essex and the Chatham-Kent Division
Stratford-Bruce Peninsula (580)	The counties of Perth, Huron, Bruce and Grey

North

Northeast (590)	The districts of Nipissing, Parry Sound, Manitoulin, Sudbury, Timiskaming, Cochrane, Algoma and the Greater Sudbury Division
Northwest (595)	The districts of Thunder Bay, Rainy River and Kenora

Notes:

1. As defined by Statistics Canada, *Standard Geographical Classification SGC 2001*.
2. Economic Region 530 closely matches the GTA, except that it excludes the City of Burlington.

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ANNEX I

Ontario's Economy

Introduction and Overview

In 2004, Ontario's economic performance has improved over 2003 and is generally consistent with the Budget projections released in May. The economy has recovered from a series of events that imperilled economic growth last year, and is on a path of healthy expansion, including rising incomes, more jobs, increased exports and stronger business investment. Ontario has created 127,000 new full-time jobs so far this year, which is on track for the largest full-time job gain in four years. This annex updates the outlook for the Ontario economy for the period 2004 through 2007. It also discusses strategies that the Ontario Government is pursuing to implement its economic plan. The key elements of the economic plan build on Ontario's competitive strengths, modernize infrastructure and improve the education and training of the workforce, including making the best use of the talents and skills that immigrants bring to Ontario.

Real gross domestic product (GDP) growth is forecast to be 2.3 per cent in 2004, up from 1.6 per cent in 2003. Over the 2005 to 2007 period, Ontario's annual growth rate is projected to average 3.2 per cent per year. Private-sector forecasters are more optimistic about growth in 2004, calling, on average, for growth of 2.6 per cent. In a preliminary step towards establishing an Economic Forecast Council as proposed in the Fiscal Transparency and Accountability Act, the Minister of Finance met with a group of leading private-sector economists in September, who provided advice on forecast assumptions and risks to the outlook. The Ministry of Finance believes that growth for the current year could well be below the private-sector consensus. The persistence of the recent increase in oil prices, for example, will be a drag on Ontario growth in the final months of 2004. Consequently, the lower forecast growth rate is retained to ensure a prudent basis for the government's fiscal and economic plans.

Ontario Economic Highlights: Current Private-Sector Survey Average (Per Cent Change)

	2002	2003	2004p	2005p	2006p	2007p
Real GDP Growth	3.7	1.6	2.6	3.3	3.4	3.5
<i>Ontario Ministry of Finance assumption</i>	3.7	1.6	2.3	3.2	3.1	3.3
Nominal GDP Growth	5.7	3.2	5.1	5.5	5.0	5.2
Unemployment Rate	7.1	7.0	6.8	6.6	6.4	6.2
CPI Inflation	2.0	2.7	1.8	2.0	1.7	1.9

p = private-sector survey average.

Note: The number of forecasters falls from 10 in 2004 to 4 in 2007.

Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (October 2004).

On the basis of the economic planning assumptions, Ontario can anticipate average revenue growth of about \$4.1 billion annually. This projection is based on the current provincial tax structure including measures proposed in the 2004 Budget, existing federal transfer policies and the recent First Ministers' health agreement. A detailed discussion of the revenue outlook is found in Annex II.

Ontario's economy is embedded in the global marketplace. As a result, the economic health of our major trading partners, particularly the United States, contributes strongly to Ontario's growth performance. Other factors also influence Ontario's economy, including the level of interest rates and the value of the Canadian dollar, which reflect federal government economic policies as well as market developments. Furthermore, as we have experienced in the recent past, unanticipated shocks in other parts of the world have ripple effects in Ontario.

Nonetheless, the health of Ontario's economy relies to a considerable extent on the wise stewardship of the province's resources, as well as the performance of the global economy. Given the importance of external factors for Ontario's economic growth, cautious planning assumptions are a critical element of sound economic policy. At the same time, Ontario will pursue various strategies to strengthen the foundations for the next generation of economic growth. These include expanding apprenticeship training and post-secondary enrolment, securing a reliable energy supply, fostering innovation, investing in infrastructure—including transportation and border crossings—and strengthening cities.

STRONG PEOPLE, STRONG ECONOMY

- A skilled workforce.
- Competitive business environment.
- Modern, efficient public services.

Progress Report 2004.

PRIVATE-SECTOR FORECASTS

The proposed Fiscal Transparency and Accountability Act, introduced with Ontario's 2004 Budget, contemplates the formation of an Economic Forecast Council for Ontario to provide "advice relating to macroeconomic forecasts and assumptions to be used to prepare the Budget and the related fiscal plan." As an initial step towards this objective, a group of private-sector economists met with the Minister of Finance and Ministry officials in September to provide advice on forecast assumptions and risks.

The Ontario Ministry of Finance has historically used private-sector forecasts as a guide for establishing reasonable economic assumptions on which to base revenue forecasts. Standard practice has been to employ assumptions of somewhat slower economic growth than the consensus prediction of the private sector. The following table shows the current projections for real economic growth of institutions invited to participate in discussions on Ontario's economic outlook.

**Current Private-Sector Forecasts for Ontario Real GDP Growth
(Per Cent Change)**

	2004	2005	2006	2007
Conference Board (October)	2.6	3.3	2.9	2.9
Global Insight (July)	2.6	3.6	3.3	3.4
Centre for Spatial Economics (October)	3.3	4.2	3.5	3.8
University of Toronto (October)	2.1	2.9	3.8	3.7
Bank of Montreal (October)	2.6	3.5	3.7	—
RBC Financial (October)	2.9	3.6	—	—
Scotiabank (October)	2.5	2.6	—	—
TD Bank (July)	2.4	3.4	—	—
Nesbitt Burns (October)	2.6	3.0	—	—
CIBC World Markets (September)	2.7	3.1	—	—
Average	2.6	3.3	3.4	3.5

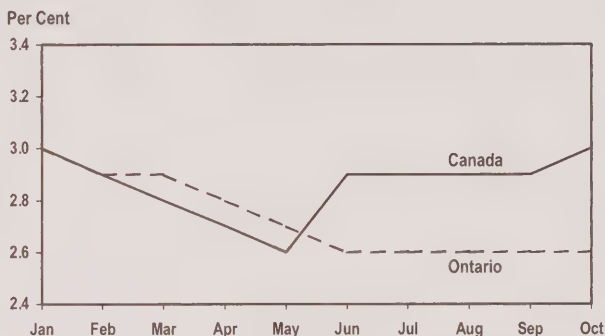
Source: Ontario Ministry of Finance Survey of Forecasts (October 29, 2004).

Changes in Ontario's 2004 and 2005 Economic Outlook Since the May Budget

Ontario's aggregate economic performance in 2004 has unfolded generally as expected at the time of the Budget in May. As a result, the Ministry of Finance has maintained its Budget forecast that Ontario real GDP will rise by 2.3 per cent in 2004. Over the same period, private-sector forecasters, on average, have slightly lowered their projections for Ontario's economic growth in 2004. The average private-sector forecast for the province's 2004 real GDP growth is currently 2.6 per cent, down slightly from the 2.7 per cent rate of growth anticipated at the time of the Budget.

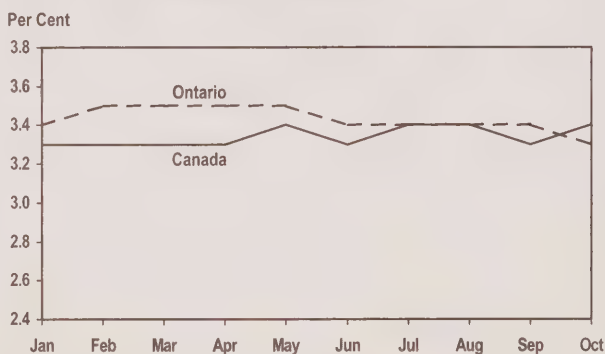
While Ontario's economic growth so far this year has been close to the expectations of the Budget, the composition of growth has been different than anticipated, with less growth in consumer spending and stronger increases in housing, machinery and equipment investment, and exports. The more moderate pace of consumer spending can be seen in Ontario's retail sales, which are now expected to increase by 2.9 per cent in 2004, down from the Budget's projection of 3.5 per cent. For 2005, the average private-sector forecast for Ontario's real GDP growth has declined from 3.5 per cent in May to 3.3 per cent currently.

Consensus Forecast of Real GDP Growth in 2004



Sources: Canada—Consensus Forecasts; and Ontario—Ministry of Finance Survey of Forecasts.

Consensus Forecast of Real GDP Growth in 2005



Sources: Canada—Consensus Forecasts; and Ontario—Ministry of Finance Survey of Forecasts.

In contrast, according to Consensus Economics, the average private-sector forecast for Canada's 2004 economic growth has risen from 2.6 per cent in May to 3.0 per cent currently. For 2005, forecasters on average expect Canada's real output to rise by 3.4 per cent, unchanged from the consensus projection in May.

Oil prices have risen sharply since the Budget, reaching record levels in the autumn months. As a result, the average price of oil in 2004 will be at least \$5 US per barrel higher than the Budget assumption. This benefits the oil-producing provinces while penalizing energy-importing Ontario. As well, high commodity prices have provided strong support for other parts of Canada. Resource-based products account for 26 per cent of Ontario's international merchandise exports compared to 74 per cent for the rest of the country.

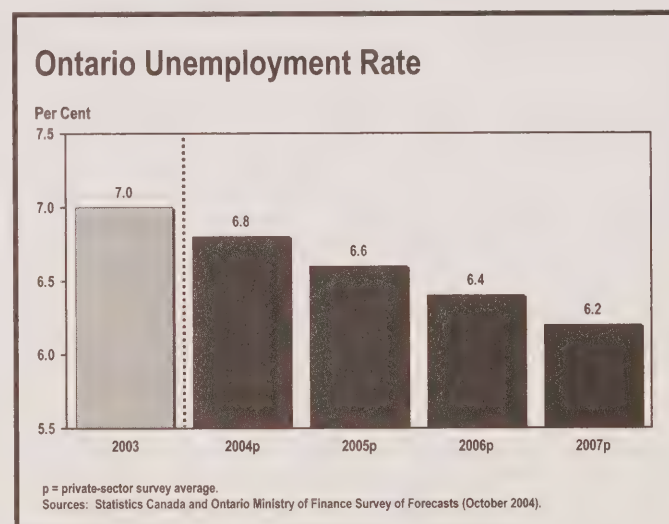
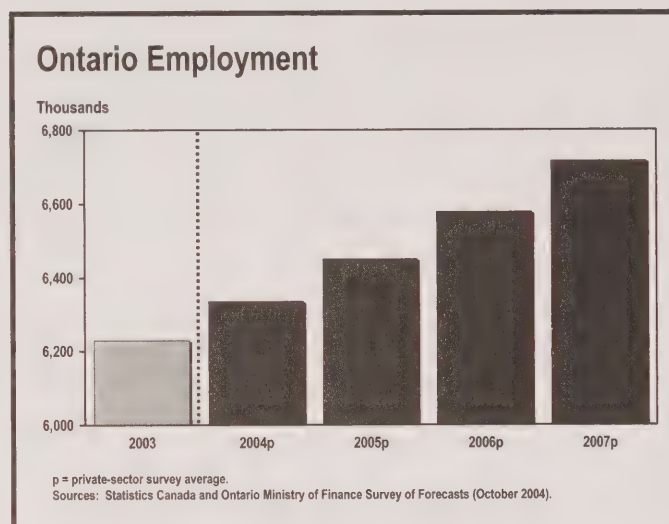
The Canadian dollar has traded in a higher range than anticipated in the Budget, reaching a 12-year high in October. The stronger dollar restrains Ontario's growth more than Canada's because of the high concentration of manufactured goods in Ontario's export sector.

Ontario Gaining Full-Time Jobs at a Healthy Pace

Ontario's growing economy has generated 105,000 net new jobs so far in 2004, a gain of 1.7 per cent. All of the jobs created this year have been in full-time positions, which have increased by 127,000 and are on pace for their strongest gain since 2000. On an industry basis, healthy job gains have occurred in wholesale and retail trade; finance, insurance and real estate; education; health care and social assistance; and information, culture and recreation.

The increase in employment this year has helped push Ontario's unemployment rate down from a peak of 7.1 per cent in March to 6.5 per cent in September.

Private-sector forecasters expect this pickup in job growth to continue, with a solid economic performance underpinning job gains of 1.8 per cent in 2005 and an average of 2.0 per cent in 2006 and 2007. Encouraged by strengthening employment prospects, even more Ontarians are anticipated to enter the job market over the next several years. On average, forecasters project that the share of the working-age population in the labour market will climb from a 12-year high of 68.4 per cent in 2003 to 69.0 per cent by 2007.



Over the same period, Ontario's unemployment rate is projected to decline from an annual average of 7.0 per cent in 2003 to 6.2 per cent by 2007, according to the average private-sector forecast.

Ontario's competitive advantage lies, in part, in the skills and talents of its people, including the diverse and growing immigrant population. Ontario is investing to improve the education system from junior kindergarten to post-secondary to the workplace. Other initiatives to ensure that new immigrants find jobs in which they can contribute their full talents and skills will strengthen economic growth and increase opportunity. The aim is to equip Ontarians with the knowledge and skills that attract the best jobs and investment, as set out in the government's *Progress Report 2004*.

Employment income accounts for the largest part of income earned by Ontarians. With average wages and salaries per paid worker projected to rise by 1.7 per cent this year, total personal income is expected to rise by 3.5 per cent in 2004, a full percentage point higher than 2003 growth. Income growth will provide the main impetus to household demand for goods, services and housing. Over the 2005 to 2007 period, household spending is projected to increase by an average of 4.9 per cent per year, supported by average income gains of 4.7 per cent or 2.7 per cent when adjusted for inflation.

Ontarians will see rising real after-tax income per capita this year, following a three-year period over which there was no growth. Real personal disposable income per capita is expected to rise by 1.2 per cent in 2004, double the average annual pace of growth over the 1982 to 2003 period. From 2005 to 2007, real growth in personal disposable income per person is projected to average 1.4 per cent per year.

POST-SECONDARY EDUCATION AND TRAINING: ONTARIO'S COMPETITIVE ADVANTAGE

A highly educated and skilled workforce is part of Ontario's competitive advantage. The government is committed to building on this strength by developing the best workforce in North America.

A number of initiatives for higher education and training were announced in the 2004 Budget. These initiatives build on the steady progress to date on commitments made at the elementary/secondary level and include:

- The review of post-secondary education by former premier Bob Rae.
- Making post-secondary education more affordable and accessible.
- Increasing post-secondary education enrolment by 50,000 full-time students.
- Funding an expansion of the apprenticeship system by 7,000 new registrants annually.
- Encouraging businesses to hire and train more apprentices in the skilled trades by lowering their costs through the proposed Apprenticeship Training Tax Credit.
- Providing funding to update technology and equipment at colleges.
- Eliminating barriers to employment faced by skilled immigrant workers and providing funding for bridge training programs.
- Funding alternative academic upgrading and skills training options for youth who drop out of school.

The Ontario and federal governments have agreed to pursue agreements on labour market services and immigration. These agreements will co-ordinate programs, eliminate duplication, expand apprenticeship and improve labour market opportunities for recent immigrants.

As set out in the government's *Progress Report 2004*, the expected results are increased participation in post-secondary education and training, more internationally trained people becoming qualified to work in Ontario, and greater high school completion rates.

U.S. Economic Growth Expected to Moderate

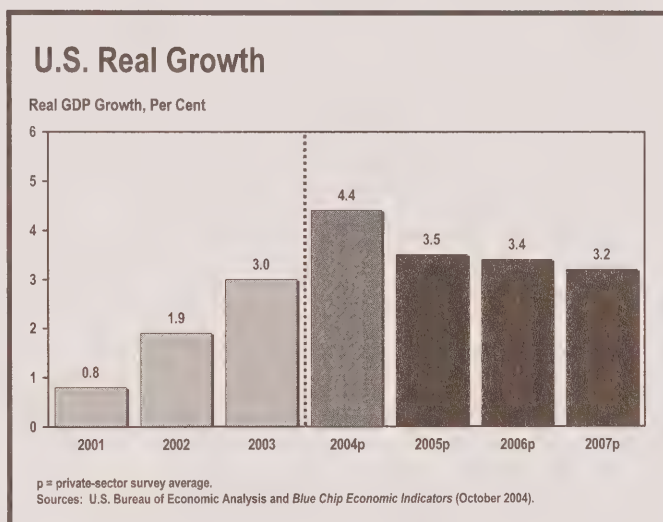
The economic health and performance of the United States is an important component in Ontario's future. American consumers and businesses purchased \$153 billion of goods from Ontario last year, an amount equal to 31 per cent of the province's GDP. In addition, there were significant exports of services, such as financing and transportation, although these are more difficult to measure accurately.

The U.S. economy has showed a dramatic improvement since the middle of 2003. Over the past six quarters, real output has increased by an average annual rate of more than four per cent per quarter. This stronger growth has contributed to a gain of 1.7 million new jobs over the past year, higher incomes and increased spending on goods and services. Furthermore, corporation profits have risen sharply, up 17.1 per cent so far this year, providing a key source of funds for outlays on equipment and software.

According to the October edition of *Blue Chip Economic Indicators*, U.S. real GDP is forecast to rise by 4.4 per cent for 2004 as a whole, one of the biggest gains in output over the past 20 years. Growth is expected to moderate to 3.5 per cent in 2005, 3.4 per cent in 2006 and 3.2 per cent in 2007.

However, while continued growth in the U.S. economy is expected, numerous risks remain. The over 60 per cent rise in oil prices since the start of the year, if sustained, could further slow growth. Higher gasoline pump prices would force

consumers to divert even more of their income from spending on other items. Households are also highly indebted and will face rising debt payments as interest rates gradually increase. The U.S. federal government's budget deficit reached a record level last fiscal year, pointing to the necessity for fiscal restraint in the years ahead. The burgeoning U.S. current account deficit also represents a risk to long-term growth prospects. If foreign investors lessen their willingness to hold U.S. government debt, the American dollar could depreciate rapidly.



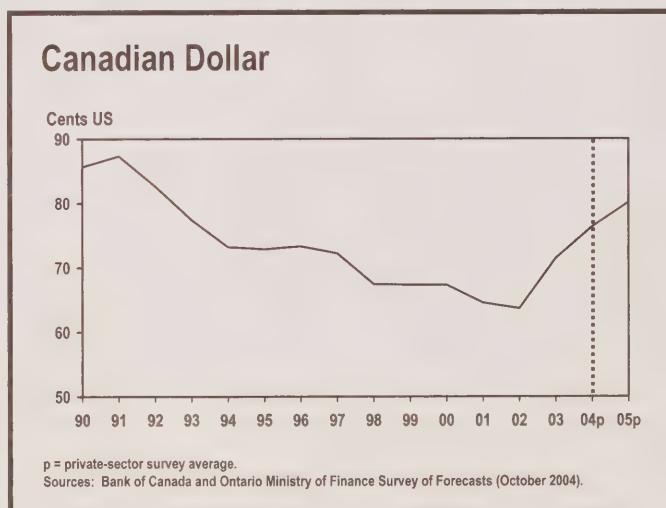
A Stronger Canadian Dollar

The sharp rise in the Canadian dollar during 2003 and again in late 2004 is a significant development for Ontario's economy. The Canadian dollar traded at 64 cents US in January 2003 and then appreciated about 20 per cent by the end of last year to reach 77 cents US. After falling during the first half of this year, the Canadian dollar has recently started to appreciate again, reaching a 12-year high of over 82 cents US in October. The impact of a strong dollar on the Ontario economy is greater than for Canada as a whole because of the high concentration of manufactured goods destined for U.S. markets in Ontario's export sector.

The rise of the Canadian dollar is one of the counterparts to a generalized depreciation of the U.S. dollar against other major freely floating currencies. Since the beginning of 2003, the Canadian dollar has appreciated by 23 per cent against the U.S. dollar, the euro has strengthened by 17 per cent and the yen by 9 per cent.

The United States is likely to run a current account deficit of \$640 billion US in 2004. It has had a current account deficit every year since 1992 and by the end of 2003 the net international indebtedness of the United States increased to \$2.4 trillion US, equivalent to 22 per cent of GDP. Over time, the depreciation of the U.S. dollar should help to reduce the current account deficit by making U.S. exports more competitive and discouraging U.S. imports from other countries.

The current consensus for the Canada-U.S. exchange rate is an average of 80.1 cents US in 2005, slightly below recent levels. The projections in this Annex assume that the exchange rate will average 81.0 cents US in 2006 and 81.4 cents US in 2007. These assumptions are obviously subject to considerable uncertainty and a different outcome could have a significant impact on the rate and composition of economic growth in Ontario.



The appreciation of the Canadian dollar has significantly benefited Ontarians as consumers. For example, the price of imported oil would have risen by 63 per cent rather than 36 per cent in 2003 and 2004 if the Canadian dollar had not appreciated. Other imported consumer goods are cheaper as well.

The higher value of the Canadian dollar is a significant challenge for Ontario exporters. In 2003, Ontario's nominal international merchandise exports fell 7.3 per cent, which reflected both the 20 per cent increase in the Canadian dollar and the sluggish pace of U.S. demand early in the year. However, Ontario exporters are making adjustments to compete at the higher exchange rate by cutting costs and boosting productivity. The rise in the Canadian dollar has enabled Ontario businesses to increase investment in machinery and equipment at a lower cost, since about 60 per cent is imported. As a result of this response and growing world markets, the value of exports has picked up in 2004, rising by 8.0 per cent in the January through August period from a year earlier.

Ontario's manufacturing sector continues to have a competitive edge with the United States at an exchange rate of 80 cents US. First, its employees are highly skilled—47 per cent of employees hold a university degree or trades or colleges accreditation, compared to 31 per cent in the United States. Second, as noted in the table on the next page, its universal health care system contributes to a labour cost advantage—producers of 70 per cent of Ontario's manufacturing exports representing more than half of manufacturing employment in the province have a labour cost advantage over their U.S. competitors.

ONTARIO'S UNIVERSAL HEALTH CARE SYSTEM CONTRIBUTES TO EXPORT COMPETITIVENESS

“The public health system significantly reduces total labour costs... compared to the cost of equivalent private health insurance services purchased by U.S.-based automakers.”

Joint letter from Ford Motor Co., General Motors Corp. and DaimlerChrysler quoted in the Washington Post, March 6, 2004.

Manufacturing Industries**Labour Cost* Advantage at \$0.80 US**

	Labour Cost Advantage (Per Cent)	Share of Manufacturing Exports (Per Cent)
Petroleum and Coal	23	1.4
Leather and Allied Products	22	0.04
Motor Vehicles	19	35.4
Auto Parts Manufacturing	15	11.3
Textile Products	10	0.2
Beverage and Tobacco	10	0.7
Chemicals	9	7.3
Non-Metallic	6	1.0
Computers and Electronics	5	4.9
Apparel	3	0.4
Printing	2	0.5
Electrical Equipment	1	2.1
Plastic and Rubber	1	4.7

* Wage plus health cost.

Sources: U.S. Bureau of Labor Statistics, Statistics Canada, Industry Canada and Ontario Ministry of Finance.

Exports Rebound

Heading into 2004, U.S. economic growth became more broadly based, with auto sales improving and firms increasing machinery and equipment expenditures, stimulating demand for Ontario-produced goods and services. At the same time, Ontario exporters were adjusting to the higher value of the Canadian dollar by lowering costs and improving production and distribution efficiencies.

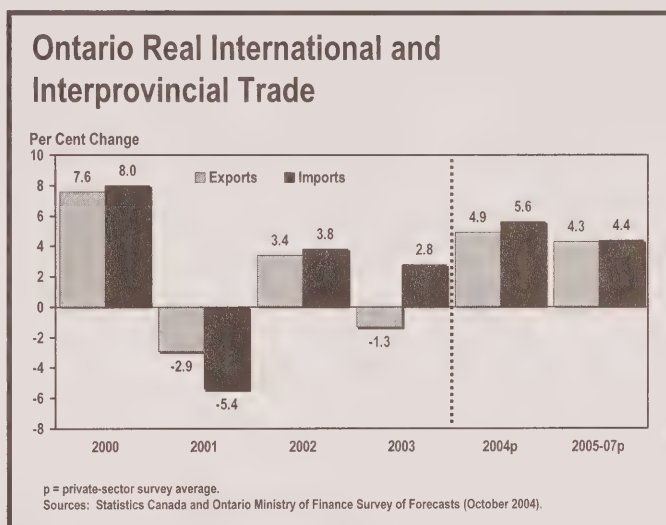
Private-sector forecasters project that real exports from Ontario will accelerate, rising by 4.9 per cent in 2004 and an average of 4.3 per cent in 2005 to 2007.

Export growth will be supported by a stable level of U.S. auto sales and continued increases in business outlays on capital equipment, both of which are important parts of Ontario's trade. The auto industry is Ontario's dominant export sector, accounting for close to 47 per cent of the province's international merchandise exports. Following autos, machinery and equipment is Ontario's second leading source of exports, at about 20 per cent.

Private-sector forecasters expect U.S. auto sales to remain around 17 million units per year during the 2004 to 2007 period. Real business investment on machinery and equipment in the United States is projected to increase by 12.2 per cent in 2004 and 10.6 per cent in 2005.

Ontario exporters in the resource-based industries have benefited from strong demand for commodities and sharply higher prices. For example, the value of Ontario exports of forestry products has increased over 12 per cent during the first eight months of 2004 from the same period a year earlier.

However, the expected steady gain in exports cannot be taken for granted and Ontario producers face a number of challenges. Ontario exporters will need to persist in adjusting to a higher exchange rate in order to remain on top in today's increasingly competitive global marketplace. Continuous innovation to seize new opportunities is an important part of success in export markets.



STRENGTHENING BUSINESS INVESTMENT IN INNOVATION: RESEARCH AND COMMERCIALIZATION

“Our plan will make strategic government investments to encourage business development in innovative parts of our economy.”

Progress Report 2004.

Business investment plays a critical role in commercializing discoveries derived from public research. This includes investments in research partnerships with universities and hospitals; risk capital for new technology companies; licensing of new technologies; and support for local business-academic technology networks that encourage entrepreneurship and a culture of innovation.

There are also important benefits from having local businesses tap into the extensive know-how and expertise of the world-class scientific talent that is produced by Ontario’s public research institutions—universities, colleges, hospitals and other institutes.

The Ontario Government is moving forward on a new research and commercialization framework that will aim to increase business investment and involvement in research performed by Ontario’s public research institutions.

Recently, the Premier announced \$300 million over four years in funding support for public research infrastructure.

This is on top of commitments since October 2003, of nearly \$1.5 billion over four years in funding support for research and commercialization by Ontario’s public research institutions, bringing the value of total projected investments over the next four years to \$1.8 billion. This includes:

- Realigning Ontario’s science and technology programs—which strengthen Ontario’s research capacity and bolster innovation—to focus on commercialization.
- The Ontario Research Commercialization Program, which will provide \$27 million over four years to help public research institutions identify discoveries with commercial potential.
- The Ontario Commercialization Investment Funds program, which would provide up to \$36 million to leverage up to \$120 million in new pools of seed capital for spinoff technology companies created by faculty, staff and students at Ontario public research institutions.

Each day, \$640 million of goods are trucked across the bridges and tunnels at Windsor, Sarnia, Niagara Falls and Fort Erie that link Ontario and the United States. These vital conduits carry 69 per cent of total truck trade between Canada and the United States.

Of course, the United States is not our only trade partner. Ontario also has significant and well-established trade linkages with the rest of the world. The transformation and growth of China's economy have emerged as vital factors in the shape of world trade in the decades ahead. This will be significant for Ontario, as it will for all jurisdictions. Geography and history have made the United States overwhelmingly our most important trading partner, buying over 90 per cent of our international merchandise exports. Even explosive growth in our sales to China will not alter this key relationship over the next decade. Nonetheless, Ontario business is actively participating in the growth of trade with China. China, including Hong Kong, has become our second-largest two-way trading partner; it ranked fifth in 1996. Trade with China has grown by three and a half times from \$3.9 billion in 1996 to an annualized \$13.7 billion thus far in 2004. With a diverse population including a large Chinese community, Ontario is well positioned to further enhance trade with China.

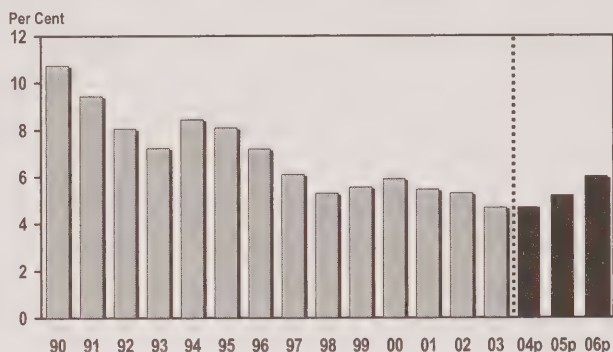
Interest Rates Rising Gradually, Inflation Contained

Early in the year, the Bank of Canada brought short-term interest rates to their lowest level in more than 40 years. Since then, economic growth has improved. As a result, the Bank of Canada has increased interest rates by 50 basis points since September. With healthy economic growth expected to prevail through 2005, forecasters anticipate the Bank of Canada will continue to reduce monetary stimulus over the next year to lean against emergent inflationary pressures. While short-term interest rates have risen by about 50 basis points since the time of the Budget, long-term rates have declined by 15 basis points, indicating market confidence that the central bank will succeed in keeping the economy from overheating and that low inflation will be sustained. In comparison to the assumptions made in the May Budget, short-term interest rates have risen at close to the expected pace, but the decline in long-term rates was not anticipated.

The U.S. Federal Reserve began to raise short-term rates in June in order to bring monetary policy to a more neutral stance. Short-term nominal interest rates in the United States are currently 75 basis points below the equivalent rates in Canada.

According to private-sector forecasts, Canadian three-month treasury bill rates will rise by just over a percentage point from an average of 2.2 per cent in 2004 to 3.3 per cent in 2005. Long-term interest rates are projected to increase by less, rising from an average of 4.7 per cent in 2004 to 5.2 per cent in 2005.

10-Year Government of Canada Bond Rate



p = private-sector survey average.
Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (October 2004).

Canadian Interest Rate Outlook

(Annual Per Cent)

	2002	2003	2004p	2005p	2006p	2007p
3-month Treasury Bill Rate	2.6	2.9	2.2	3.3	4.2	4.6
10-year Government Bond Rate	5.3	4.7	4.7	5.2	6.0	6.0
Ontario CPI Inflation Rate	2.0	2.7	1.8	2.0	1.7	1.9

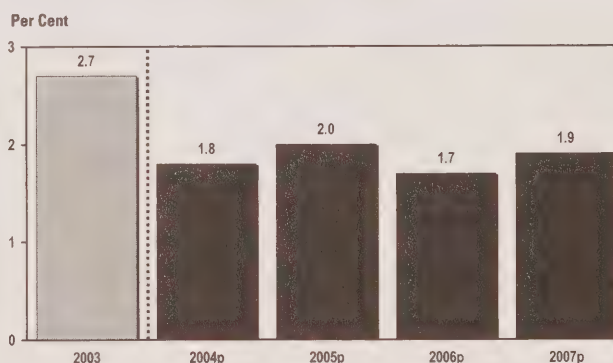
p = private-sector survey average.

Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (October 2004).

The extent and pace of interest rate increases will depend in part on the path of inflation. Forecasters expect that Canada's and Ontario's CPI inflation rates will remain low, averaging close to two per cent over the forecast horizon.

One concern about the inflation outlook is the rapid rise in oil prices. Since the start of 2004, the price of a barrel of oil has jumped by more than 60 per cent to over \$55 US in October.

Ontario CPI Inflation Outlook



p = private-sector survey average.
Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (October 2004).

This has resulted in higher gasoline prices, which have increased by over 20 per cent since January. Although forecasters expect oil prices to decrease to \$38 US per barrel a year from now, strong demand and the potential for supply disruptions in the Middle East, Nigeria and Russia add considerable risk to oil price forecasts. Currently, futures markets expect oil to remain above \$40 US per barrel through 2005. Since the time of the Budget, oil prices have averaged about \$5 US per barrel more than expected, which by itself would tend to increase the CPI inflation rate by up to 0.4 percentage points in 2004.

However, despite the rise in oil prices, the province's CPI inflation rate is expected to average 1.8 per cent in 2004, down considerably from 2.7 per cent in 2003, and slightly below the Budget projection of 1.9 per cent. A number of factors have contributed to the lower rate of inflation this year. The most important is the Canadian dollar, which has appreciated against its U.S. counterpart by over 20 per cent since early 2003, lowering the cost of imported consumer goods and imported business inputs. Inflation has also been restrained by Ontario Government measures to reduce auto insurance costs. After boosting Ontario's annual CPI inflation rate by an average of about 0.8 percentage points in 2002 and 2003, declining auto insurance rates are helping to lower inflation this year. For example, September's Ontario CPI rate was 0.4 percentage points lower than it would have been had Ontario's auto insurance rate reduction initiatives not been implemented.

Financial markets influence the economy through more than the level of nominal and real interest rates. They also provide the mechanism that allows business to access the financing they need to grow and expand and provides investment and savings opportunities for citizens. Countries with financial systems that efficiently channel savings into productive investments tend to experience higher economic growth rates.

The regulatory environment must reinforce confidence in the financial sector so that it can support the competitiveness of industries operating in Ontario and across Canada. Canada's fragmented securities regulatory structure leads to duplicative costs, and related delays in market "windows" of opportunity, which dissuade firms from raising capital in multiple provinces. Only 16 per cent of reporting issuers in Canada report in all 10 provinces. Since Canada as a whole has only one-fortieth of the U.S. total stock-market trading by value, Canadian firms, especially small and medium-sized enterprises (SMEs), face a disadvantage in raising capital.

Progressive regulatory policies will ensure that Ontario's financial sector, which accounts for 328,000 jobs and 7.7 per cent of GDP, stays at the forefront in world capital markets and that key sectors of the economy have the access to capital they require to support their growth.

FINANCIAL SERVICES

Competitive and effective financial markets play an important role in attracting broad and active participation of investors and, in turn, listed firms. Regulations play a key market-reinforcing role, underpinning investor and consumer confidence and market integrity.

To ensure that Ontario-regulated financial enterprises can continue to compete and grow in dynamic local and global markets, and that Ontario consumers and investors continue to be well protected, the government is taking steps to modernize regulatory frameworks in several financial markets.

- As part of its consideration of the Five Year Review of the Ontario *Securities Act*, on October 18, 2004, the Ontario Legislative Assembly's Standing Committee on Finance and Economic Affairs (SCFEA) released a report that unanimously endorsed the Province's proposal for a single securities regulator. It signalled that the Ontario Government is right in taking a leadership role to move to a common securities regulator for Canada. The Ontario Government will continue to consult with investors, companies, securities firms, and other provinces and territories on this priority initiative in order to enhance financial market efficiency, provide strong protection for investors, and attract international investment.
- Other recommendations in SCFEA's report will help ensure a modern securities regulatory system and strong investor confidence and protection. The Ontario Government plans to take action relating to civil liability for secondary market disclosure and new timelines for future securities law review committees, and expects to develop proposed legislation in the near future.
- As announced in the 2004 Ontario Budget, legislation to clarify that investors in publicly traded trusts will not be liable for the activities of the trust has been introduced and is currently before the Legislative Assembly as part of the *Budget Measures Act, 2004 (No. 2)*, Bill 106.
- As announced in the 2004 Budget, the government is taking steps to modernize the *Mortgage Brokers Act*. A consultation paper was released in June 2004. The Parliamentary Assistant to the Minister of Finance has been consulting with stakeholders. Work is underway to prepare a Consultation Draft of a new *Mortgage Brokers Act*.

RISKS TO THE ECONOMIC OUTLOOK

The private-sector economists who met with the Ministry of Finance in September were in broad agreement that the most likely path for the Ontario economy was one of sustained growth. However, they cautioned that a variety of external factors pose risks that need to be taken into account. Foremost among these risks are oil prices, the health of the U.S. economy and the Canada-U.S. exchange rate.

The table on the next page shows the typical range for the first- and second-year impact of changes in these external factors on the real growth of our economy. These estimates are based on historical relationships and illustrate the upper and lower bounds for the average response. The results show the implications of changes in key assumptions in isolation from changes to other external factors. In any actual situation, the combination of other circumstances can also have a substantial bearing on the outcome. The range of possible impacts reflects a variety of factors.

- For example, each percentage point increase in U.S. real growth adds 0.3 to 0.7 percentage points to real growth in Ontario in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar reduces Ontario growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as the extent to which firms pass through lower costs for imports because of the higher Canadian dollar to prices for goods and services in Canada.
- A sustained \$10 US per barrel increase in the price of world crude oil trims Ontario's real growth by 0.3 to 0.7 percentage points in the first year. This impact also assumes natural gas prices rise in the same proportion to oil prices, since they are substitute sources of energy. Furthermore, the contractionary impact of higher world oil prices on U.S. demand also hurts Ontario exports. The range is due in part to uncertainty regarding the degree to which higher energy costs increase consumer prices.

RISKS TO THE ECONOMIC OUTLOOK (CONT.)

Impact of Changes in Key Assumptions on Ontario Real GDP Growth*

(Percentage point change)	First Year	Second Year
Canadian Interest Rates Increase by 1 Percentage Point	-0.1 to -0.5	-0.2 to -0.6
U.S. Real GDP Growth Increases by 1 Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Dollar Appreciates by 5 Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by \$10 US per Barrel	-0.3 to -0.7	-0.1 to -0.5

* Impacts based on changes being sustained.

Source: Ontario Ministry of Finance.

Moderate Growth in Household Spending

Growth in household spending on consumer goods and services moderated in 2004 from last year, although housing market activity remains robust. Ontario's positive economic environment will be supportive as incomes are lifted by solid job creation, interest rates remain at low levels by historical standards and household balance sheets continue to be healthy.

The Ontario housing market remains strong. Housing starts have generally trended higher since 1996 and hit a 14-year high of 85,200 units in 2003. This year, starts are expected to reach 83,200 units, one of the highest levels since 1989, according to the average private-sector forecast. The relative strength in the Ontario housing market is a result of prevailing low mortgage rates and rising incomes, which makes home ownership affordable. Over the medium term, housing starts are forecast to moderate.

Recently, mortgage rates have started to rise. Average five-year mortgage rates are currently 6.3 per cent, up from a low of 5.7 per cent in April, though lower rates are negotiable.

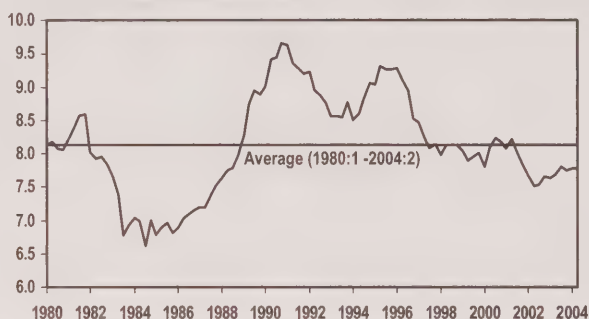
Ontario's resale market continued to strengthen in 2004 and is expected to surpass last year's record performance. Over the first nine months of 2004, home resales are up 8.6 per cent compared to the same period a year earlier. In 2004, over 195,000 existing homes are expected to be sold and prices are anticipated to rise by 7.2 per cent. Modestly higher interest rates are expected to keep the strong housing market from overheating and to cause the level of activity to moderate, yet still remain at healthy levels over the next few years.

While housing market activity remains healthy, household spending has moderated, most notably for autos. Private-sector forecasts on average expect real consumer spending to rise 2.2 per cent in 2004, following a 3.0 per cent rise in 2003. The robust housing market has lifted spending in 2004 as household-related purchases have been a significant contributor to consumer spending growth. Furniture and electronic store sales are up 6.1 per cent over the first eight months of 2004. Sales by home-furnishings stores alone are 23.0 per cent higher. Home centres and hardware stores have also benefited, with year-to-date sales up 4.0 per cent over the January to August period of 2004.

The rapid pace of home-buying activity has contributed to higher household debt. With a moderate increase in interest rates expected, debt-servicing costs will rise gradually, but household balance sheets appear well positioned to absorb this. The ratio of Canadian household debt costs to personal disposable income was 7.8 per cent in the second quarter of 2004, below the 8.1 per cent average recorded since 1980. The ratio has remained stable since the end of 2001, ranging between 7.5 and 7.8 per cent, due to low interest rates and rising personal incomes.

Canadian Household Debt Interest Costs

Per Cent of Personal Disposable Income



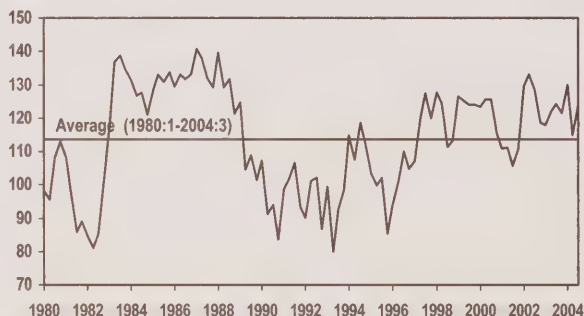
Sources: Canadian Department of Finance, Ontario Ministry of Finance and Statistics Canada.

The wealth effect associated with increased real estate and higher house prices has contributed to households' ability and willingness to spend. Although house prices are unlikely to continue rising at the pace of recent years, a substantial downward movement also appears unlikely.

Ontario consumer confidence has improved. In the third quarter, the Conference Board of Canada's index of confidence for Ontario reached its highest level in a year. There has been a rise in the proportion of households that feel better about their financial prospects in the near term, along with an increased willingness by consumers to make a major purchase. Currently, the index is 9.1 per cent above the average for the 1980 to 2004 period.

Ontario Consumer Confidence

Index, 1991 = 100



Source: Conference Board of Canada.

Business Investment Upswing Underway

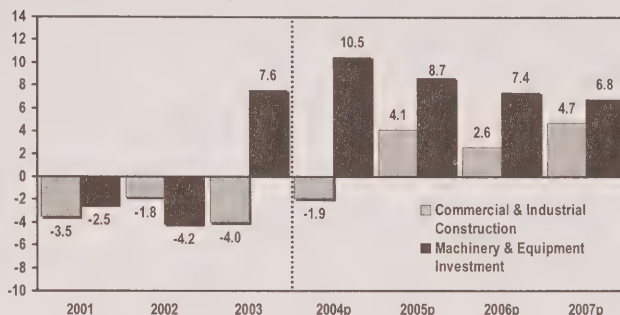
After years of tepid growth, business investment is in the midst of a strong capital expenditure expansion, supported by stronger global economic growth, rising profits, healthy corporate balance sheets, diminishing spare capacity and lower equipment prices. Private-sector forecasters expect Ontario businesses to increase real spending on machinery and equipment by 10.5 per cent in 2004, the strongest annual gain since 1997. Outlays on machinery and equipment are projected to rise by 7.6 per cent per year during the 2005 to 2007 period. Since about 60 per cent of machinery and equipment investment is imported, the more than 20 per cent appreciation of the Canadian dollar since early 2003 has substantially lowered the cost of these investment inputs, prompting firms to increase capital expenditures.

Stronger investment in machinery and equipment will boost productivity, helping Ontario businesses compete, despite the higher level of the Canadian dollar. Innovation in new products and processes also requires investment in capital goods. Having declined for five consecutive years, real business investment expenditures on

new building projects are forecast to increase by 4.1 per cent in 2005 and an average of 3.7 per cent in the following two years, according to the private-sector consensus.

Real Business Investment

Annual Growth (Per Cent Change)

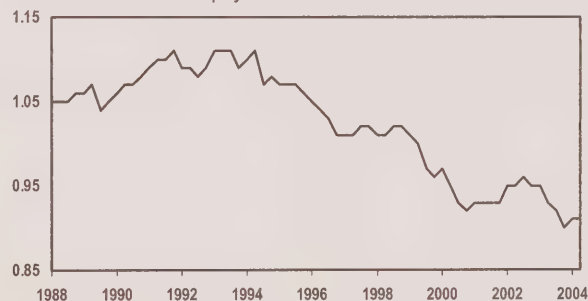


p = private-sector average projection.

Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (October 2004).

Healthy Corporate Balance Sheets

Canadian Ratio of Debt to Equity

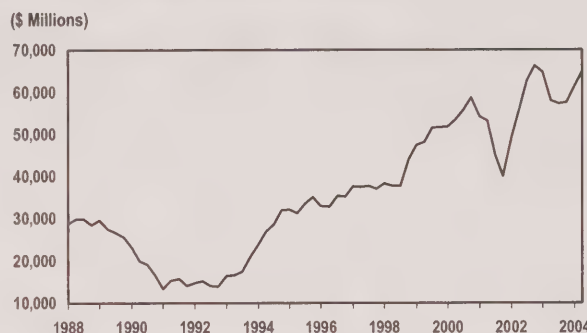


Source: Statistics Canada—debt-to-equity ratio, non-financial industries, Canada, not seasonally adjusted.

Business balance sheets are in good shape. The corporate debt-to-equity ratio has been declining for about a decade, while profits have increased sharply by over 62 per cent since their trough in late 2001. Private-sector forecasters expect that corporation profits in Ontario will grow by 16.3 per cent in 2004, 9.7 per cent in 2005 and an average of 4.9 per cent in 2006 and 2007.

Stronger global demand has contributed to a higher rate of industrial output in Ontario, pushing up capacity utilization. At the national level, the industrial capacity utilization rate reached 84.6 per cent in the second quarter of 2004, the highest in three and a half years. Manufacturing industries operated at 86.6 per cent of productive capacity, the highest rate since late 1999.

Ontario Profits Trend Upward



ONTARIO INVESTS IN MANUFACTURING SKILLS AND RESEARCH

With \$100 million assistance through the Ontario Automotive Investment Strategy, Ford Motor Company has announced plans to invest \$1 billion at its operations in Oakville, making it Ford's first flexible assembly plant in Canada capable of producing more new vehicles, more quickly and more efficiently. The facility will also be home to a ground-breaking research and development centre focusing on fuel cell technology.

A modern and efficient infrastructure is essential if Ontario is to remain a location of choice for business investment. The Ontario Government recognizes that infrastructure is a key foundation for prosperity and is creating a Ten-Year Infrastructure Plan to meet the Province's needs. This plan is discussed in more detail in Annex II. An important component of infrastructure is a dependable electrical generation and distribution system, which is critical for the smooth and effective operation of a modern economy. The government is taking necessary steps to secure an adequate supply of electricity as outlined below.

ELECTRICITY SECTOR REFORMS

On June 15, 2004, the government introduced Bill 100, the *Electricity Restructuring Act*, that, if passed, would:

- Create a new Ontario Power Authority (OPA) to ensure an adequate, long-term supply of electricity and encourage conservation through a new Conservation Bureau led by the province's first Chief Energy Conservation Officer;
- Enable the Ministry of Energy to set targets for conservation, renewable energy and the overall supply mix of electricity in the province;
- Redefine the role played by the Independent Electricity Market Operator (IMO), as defined in its new name—the Independent Electricity System Operator. Some of the current responsibilities of the IMO would be moved to the Ontario Energy Board (OEB) and the proposed OPA;
- Create incentives for more private-sector investment in new generation to help meet growing demand; and
- Regulate prices in parts of the electricity sector that would be reviewed and approved periodically by the OEB to ensure price stability for consumers.

These proposed reforms are expected to be implemented early in 2005 and, along with other government actions, would:

- Ensure that prices would be more stable while reflecting the true cost of electricity, including the elimination of the Province's and OEFC's liability for the above-market portion of the approximate 90 existing power purchase agreements;
- Improve OPG performance through government actions to improve management and board oversight at OPG, and the move to regulation by the OEB of OPG's nuclear and baseload hydroelectric assets; and
- Ensure sufficient electricity supply and encourage electricity conservation, providing the foundation of a strong, competitive and innovative economy.
 - The government has already taken actions to ensure new renewable and clean electricity supply. The Ministry of Energy has issued two requests for proposals (RFP). The RFP for 300 MW of renewable generation has closed and proposals are currently being evaluated. Proposals under the RFP for 2,500 MW of clean generation and demand-side projects must be submitted no later than December 15, 2004.

Growth Performance in Ontario's Regions

Each region of Ontario faces unique challenges and opportunities.

Over the last 12 months (September 2003 to September 2004), four out of five of Ontario's regions added new jobs and saw their unemployment rate drop¹:

Ontario Region	Employment Change (%)	Net Job Change	Unemployment Rate, Sept. 2004	Unemployment Rate Change from Sept. 2003
Southwestern	+ 3.7%	+ 28,700	6.3%	down 0.4 percentage points
GTA	+ 2.7%	+ 76,000	7.4%	down 0.4 percentage points
Central	+ 0.9%	+ 13,100	5.4%	down 0.8 percentage points
Eastern	+ 0.5%	+ 4,000	6.3%	down 0.4 percentage points
North	- 1.6%	- 6,000	8.0%	up 0.2 percentage points

¹ Note: regional figures are seasonally adjusted, three month moving averages.

BUILDING STRONG COMMUNITIES AND VIBRANT CITIES

The government is committed to improving the quality of life for all Ontarians through the creation of strong communities in all regions of Ontario. The government has undertaken a number of measures to support Ontario's municipalities and to work in partnership on shared challenges:

- The government will assume 75 per cent of the cost of public health by 2007.
- The government is delivering on its commitment to make two cents a litre of provincial gas tax revenue available to municipalities for public transit by October 2006. Effective October 2004, municipalities will start receiving one cent a litre in provincial gas tax revenue, increasing to one and a half cents in October 2005, and two cents in October 2006.
- The government has committed over \$448 million in transit capital, including support for the Toronto Transit Commission, expansion of GO Transit, a bus rapid-transit system for the Greater Toronto Area (GTA), and technical studies and environmental assessments for the Ottawa O-Train and Waterloo Region's Light Rapid Transit (LRT).
- The government will soon be launching, with the federal government and the Association of Municipalities of Ontario, the \$900 million Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) for small and rural municipalities to improve water and wastewater treatment systems, waste management and to fix local roads and bridges.
- The government is providing up to \$5 million annually in matching education property tax assistance to remediate brownfields sites.
- Municipalities have been provided with greater flexibility in 2004 to determine tax rates for homeowners and businesses.

BUILDING STRONG COMMUNITIES AND VIBRANT CITIES (CONT.)

- The government has established the Ontario Strategic Infrastructure Financing Authority (OSIFA) to provide affordable financing for public infrastructure priorities and to issue Infrastructure Renewal Bonds, providing Ontarians with an opportunity to invest in their communities.
- OSIFA is assisting 170 municipalities across the province by providing over \$2 billion in low-cost financing for over 1,000 local projects.
- The Province is investing over \$400 million to support source-to-tap drinking-water initiatives, which includes over \$250 million in capital funding.
- The government passed the *Greenbelt Protection Act, 2004*, implementing a moratorium on new urban development in the Golden Horseshoe Area. The government has released a draft plan for consultation to establish a Golden Horseshoe Greenbelt and intends to have a final plan ready by mid-December.
- In consultation with stakeholders, the government is developing Places to Grow, a framework to guide infrastructure investment in support of sustained growth in the Greater Golden Horseshoe—a region whose economic strength is a key driver of Ontario's prosperity.
- In November 2003, the Province signed the Canada-Ontario Affordable Housing Agreement. In February 2004, \$56 million in joint federal-provincial funding was allocated for more than 2,300 new affordable housing units.

Economic growth has been slower in northern Ontario than in other parts of the province. The Ontario Government is committed to ensuring that the north fully shares in the province's opportunities.

NORTHERN PROSPERITY

Ontario government initiatives to support economic prosperity and job opportunities in the north include:

- The Northern Ontario Prosperity Plan was announced in the 2004 Budget and formally launched in June. The Plan includes economic initiatives such as:
 - The Northern Ontario Grow Bonds pilot project, which would improve access to financing for new and expanding small and medium-sized businesses in northern Ontario; and
 - Go North Investor Program, an international marketing initiative to showcase northern Ontario's competitive advantages and attract investment.
- Funding for the Northern Ontario Heritage Fund Corporation (NOHFC) rose by \$35 million for 2004-05. As part of the Northern Ontario Prosperity Plan, a refocused NOHFC will return to its original mandate of fostering private-sector job creation.
- The government is moving forward with plans to improve northern Ontario's road infrastructure through a \$256 million Northern Highways Program.
- OSIFA was created in the 2004 Ontario Budget as an innovative financing vehicle to be used by Ontario communities to renew and build critical public infrastructure. To date, OSIFA is assisting 41 northern municipalities with \$219 million in low-cost loans to assist in renewing their local infrastructure.
- The government is investing in skills development in northern Ontario. For example, construction has begun on the Northern Ontario Medical School.
- The government is listening to the people of northern Ontario. Four new Northern Development Councils (NDCs) will provide direct input from northerners on policy decisions that affect their region's prosperity and quality of life. In particular, the Far North NDC is an important step towards building a new co-operative partnership with northern Ontario's remote First Nations communities.

Conclusion

Ontario's economic performance is in line with the outlook presented in the 2004 Budget. Full-time job creation is on track for the largest gain in four years. Ontarians will see rising real after-tax income per capita this year, following a three-year period over which there was no growth. While higher oil prices and the recent rapid appreciation of the Canadian dollar to a 12-year high pose a particular challenge for Ontario, exporters are adjusting by lowering costs and investing in improved production and distribution efficiencies. Consumers benefit from the higher dollar through cheaper imports.

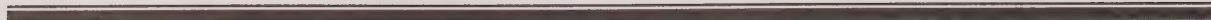
The government recognizes that economic prosperity is built on our strengths: a highly skilled workforce; an effective infrastructure system, including a reliable supply of energy; a competitive business cost environment; and modern, efficient public services. The Province is pursuing strategies to strengthen the foundations for the next generation of economic growth. These include expanding apprenticeship training and post-secondary enrolment, providing programs to make the best use of the skills and talents of immigrants, supporting infrastructure expansion, and strengthening the economies of Ontario's cities and regions. These strategies are being pursued as part of a responsible and accountable fiscal plan, which is described further in Annex II.

Appendix: Details of the Ontario Economic Outlook

The Ontario Economy, 2002 to 2007						
	Actual		Projected			
(Per Cent Change)	2002	2003	2004	2005	2006	2007
Real Gross Domestic Product	3.7	1.6	2.3	3.2	3.1	3.3
Personal consumption	3.6	3.0	2.2	2.6	3.0	3.2
Residential construction	9.3	4.9	5.6	-0.7	1.3	2.4
Non-residential construction	-1.8	-4.0	-2.4	2.3	3.1	3.0
Machinery and equipment	-4.2	7.6	10.8	6.7	5.9	5.4
Exports	3.4	-1.3	5.1	4.8	3.9	3.9
Imports	3.8	2.8	5.5	5.1	4.1	4.2
Nominal Gross Domestic Product	5.7	3.2	4.4	5.1	5.1	5.2
Other Economic Indicators						
Retail sales	5.9	3.4	2.9	4.1	4.1	4.3
Housing starts (000s)	83.6	85.2	82.2	76.0	75.0	74.0
Personal income	2.8	2.5	3.5	4.5	4.8	4.9
Wages and salaries*	3.8	2.9	3.4	4.4	5.1	5.2
Corporate profits	21.5	1.5	8.6	6.6	5.0	5.5
Consumer Price Index	2.0	2.7	1.8	2.0	1.9	1.8
Labour Market						
Employment	1.8	2.6	1.7	1.8	2.0	2.1
Job creation (000s)	105	161	103	112	131	138
Unemployment rate (per cent)	7.1	7.0	6.7	6.5	6.2	5.9

* Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, and Ontario Ministry of Finance.



ANNEX II

Ontario's Finances

Introduction

One year ago, former provincial auditor Erik Peters was asked by the Premier-designate to undertake an independent review of the Province's finances. The review concluded that the Province faced a potentially large deficit for 2003-04, now confirmed to be \$5.5 billion. This deficit was not a one-year anomaly in an otherwise healthy fiscal situation. It was a structural deficit caused by several years of much faster growth in program spending than in government tax revenues. The structural deficit also raised significant accountability and transparency issues.

The 2004 Ontario Budget set out a four-year plan to improve accountability and transparency, and restore fiscal balance. The cornerstone of this plan is the proposed Fiscal Transparency and Accountability Act (FTAA), introduced in the legislature last May. Key elements of the proposed Act include requirements for a multi-year fiscal plan, a discussion of risks in the budget and mid-year report, as well as a pre-election report on the Province's finances that would be reviewed by the Provincial Auditor.

The 2004 Budget laid out the government's four-year plan to achieve a balanced budget through a mix of revenue generation, cost-containment measures and economic growth initiatives. The structural deficit inherited from the previous government is being dealt with by taking a balanced and responsible approach to deficit reduction over the medium term, while providing funding for necessary programs and services to the public. The government is on track to achieve its multi-year fiscal plan. The \$5.5 billion deficit in 2003-04 will be reduced to \$2.2 billion in 2004-05, \$2.1 billion in 2005-06 and \$1.5 billion in 2006-07. Ontario's books will be balanced by 2007-08.

This paper will provide an overview on:

- **Section I:** 2004-05 Second Quarter Fiscal Update;
- **Section II:** Medium-Term Fiscal Plan and Outlook; and
- **Section III:** Potential Risks, Cost Drivers and Contingent Liabilities.

Section I: 2004-05 Second Quarter Fiscal Update

2004-05 FISCAL SUMMARY

As at September 30, a deficit of \$2,168 million is projected in 2004-05, an in-year improvement of \$71 million from the deficit projected in the 2004 Budget and an improvement of \$67 million from the outlook presented in the First Quarter Ontario Finances. The current 2004-05 fiscal outlook reflects the projected fiscal impact of the recent First Ministers' health agreement, which will increase Ontario's revenue and health spending by \$824 million. The majority of these investments will be used to reduce wait times and improve access to primary care, home care, and community mental health care services.

2004-05 Fiscal Outlook (\$ Millions)				
	Actual 2003-04	Budget Plan 2004-05	Outlook* 2004-05	In-Year Change
Revenue**	68,400	78,360	79,041	681
Expense				
Programs	62,104	66,695	67,520	825
Capital	2,175	2,575	2,575	--
Interest on Debt	9,604	10,329	10,114	(215)
Total Expense	73,883	79,599	80,209	610
Reserve	--	1,000	1,000	--
Surplus / (Deficit)	(5,483)	(2,239)	(2,168)	71

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Total revenue is projected at \$79.0 billion, a net increase of \$0.7 billion from the 2004-05 Budget Plan. This increase is primarily due to the First Ministers' health agreement, which increases federal payments to Ontario by \$824 million.
- Total expense is projected to increase to \$80.2 billion, up a net \$0.6 billion from the Budget Plan. As a result of the recent First Ministers' health agreement, the Ministry of Health and Long-Term Care will receive an additional \$824 million that will be spent on health care for Ontarians. This increase is partially offset by interest on debt savings of \$215 million.
- The reserve, included to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook, is unchanged at \$1 billion. Any portion of the reserve not required at year-end will be used to reduce the deficit.

IN-YEAR REVENUE PERFORMANCE

Total revenue in 2004-05 is projected at \$79,041 million, a net increase of \$681 million from the 2004-05 Budget Plan and \$677 million over the First Quarter Ontario Finances, mainly due to new revenues provided under the First Ministers' health agreement.

Summary of 2004-05 In-Year Revenue Changes Since Budget (\$ Millions)

Revenue Changes This Quarter:*

Taxation Revenue

Personal Income Tax	130	
Retail Sales Tax	(160)	
Gasoline Tax	(65)	
Land Transfer Tax	50	
		(45)

Government of Canada

Canada Health Transfer	388	
Medical Equipment	194	
Wait Times Reduction Fund	242	
		824

Income from Government Enterprises

Ontario Lottery and Gaming Corporation	(102)	
Liquor Control Board of Ontario	(9)	
		(111)

Other Non-Tax Revenue

Liquor Licence Revenue	8	
Miscellaneous Other Non-Tax Revenue	1	
		9

Total Revenue Changes This Quarter

677

Net Revenue Changes Reported in First Quarter Ontario Finances

4

Total In-Year Revenue Changes

681

* Second-quarter fiscal forecast as at September 30.
Source: Ontario Ministry of Finance.

Changes to the revenue forecast this quarter include:

- Personal Income Tax revenue increasing by \$130 million primarily due to higher 2003 tax assessments.
- Retail Sales Tax revenue decreasing by \$160 million primarily due to weaker consumer durable goods expenditures, notably low levels of vehicle sales to date this year.
- Gasoline Tax revenue decreasing by \$65 million due to reduced consumption corresponding to higher pump prices for gasoline.
- Land Transfer Tax revenue increasing by \$50 million due to continued high levels of housing resales.
- Federal Payments increasing by \$824 million based on the First Ministers' health agreement. This amount includes increases in the Canada Health Transfer (\$388 million), Medical Equipment revenue (\$194 million) and new revenue (\$242 million) for the Wait Times Reduction Fund.
- Ontario Lottery and Gaming Corporation (OLGC) net income decreasing by \$102 million largely due to lower earnings from the border casinos. Business at border casinos continues to be adversely affected by the decreasing value of the U.S. dollar and perceived border-crossing slowdowns. Lower Pro-Line lottery profits attributable to the National Hockey League labour dispute also lowered the OLGC net income outlook.
- Market developments in the brewing industry have led to a move of warehousing and shipping functions for some products from the Liquor Control Board of Ontario (LCBO) to the brewing industry. This results in a \$9 million reduction in LCBO net income through lower mark-up revenue (\$8 million) and lower out-of-store cost of service fees (\$1 million). The lower LCBO mark-up revenue is fully offset by increased Alcohol and Gaming Commission of Ontario fees, resulting in increased Liquor Licence Revenue of \$8 million.
- Miscellaneous Other Non-Tax Revenue increasing by \$1 million from the Proceeds of Crime and Civil Remedies Special Purpose Accounts to offset the cost of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05.

IN-YEAR EXPENSE PERFORMANCE

As at September 30, total expense for 2004-05 is projected at \$80,209 million, up a net \$610 million from the 2004-05 Budget Plan and First Quarter Ontario Finances. This increase is largely due to increased health spending of \$824 million, equal to Ontario's entitlement based on the First Ministers' health agreement. This increase is partially offset by interest on debt savings of \$215 million.

Summary of 2004-05 In-Year Expense Changes Since Budget (\$ Millions)

Operating Expense Changes This Quarter:*

Health Spending—increase reflects First Ministers' health agreement	824	
Justice Technology Service—transfer to Ministry of the Attorney General	8	
Fully offset from Ministry of Community Safety and Correctional Services	(8)	
Peterborough flood disaster assistance	5	
Fully offset from the Contingency Fund	(5)	
Integrated Financial Information System—implementation	3	
Fully offset from the Contingency Fund	(3)	
Managing forfeited assets—combatting indoor marijuana grow operations	1	
Interest on debt savings	(215)	
Total Operating Expense Changes This Quarter		610

Capital Expense Changes This Quarter:*

Ontario Research Fund	13	
Fully offset from the Capital Contingency Fund	(13)	
Peterborough flood disaster assistance	3	
Fully offset from the Capital Contingency Fund	(3)	
Total Capital Expense Changes This Quarter		--

Net Expense Changes Reported in First Quarter Ontario Finances

Total In-Year Expense Changes		610
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* Second-quarter fiscal forecast as at September 30.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

Operating Expense Changes

- As a result of the recent First Ministers' health agreement, the Ministry of Health and Long-Term Care will receive an additional \$824 million that will be spent on health care for Ontarians. Of the additional \$824 million, \$194 million has been allocated for the purchase of medical equipment. The remaining \$630 million will be used for investments to reduce wait times and improve access to primary care, home care and community mental health care services.
- An additional \$8 million was provided in-year to the Ministry of the Attorney General as a result of the transfer of Justice Technology Services from the Ministry of Community Safety and Correctional Services.
- An in-year expense increase of \$5 million in the Ministry of Municipal Affairs and Housing, fully offset from the Contingency Fund, was provided for disaster relief assistance due to the flooding in Peterborough in July 2004. This funding supported emergency costs incurred by individuals and small businesses, as well as public emergency response costs for the municipality.
- An additional \$3 million was provided in-year for the continued implementation of the Integrated Financial Information System, fully offset from the Contingency Fund. The Ministry of the Attorney General, Ministry of Community Safety and Correctional Services and Management Board Secretariat each received \$1 million.
- An additional \$1 million was provided in-year to the Ministry of the Attorney General for the costs of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05, fully offset by revenue.
- Savings of \$215 million on interest on debt are attributable to lower-than-planned interest rates and cost-effective debt management.

Capital Expense Changes

- An additional \$13 million was provided to the Ministry of Economic Development and Trade for the Ontario Research Fund, fully offset from the Capital Contingency Fund, to match the federal government's Canada Foundation for Innovation (CFI) grants. This funding will enable Ontario researchers to acquire and upgrade equipment and infrastructure to enhance research.
- An in-year expense increase of \$3 million in the Ministry of Municipal Affairs and Housing, fully offset from the Capital Contingency Fund, was provided for disaster relief assistance due to the flooding in Peterborough in July 2004. This funding is supporting the repair of public infrastructure in the Peterborough area.

ONTARIO STRATEGIC INFRASTRUCTURE FINANCING AUTHORITY

In the 2004 Ontario Budget, the government created the Ontario Strategic Infrastructure Financing Authority (OSIFA) as an innovative financing vehicle that can be used by the broader public sector to renew and build critical public infrastructure assets. Renewing Ontario's public infrastructure improves the quality of public services and helps build a strong and prosperous economy. This financing vehicle also provides the federal government with an opportunity to partner with Ontario. We continue to encourage the federal government to participate in renewing Ontario's infrastructure.

OSIFA Infrastructure Renewal Loan Program

OSIFA will continue to develop and implement an infrastructure renewal loan program that provides efficient and affordable financing to meet critical municipal, health and housing infrastructure priorities. OSIFA is based on a proven "pooled financing" concept that aggregates the infrastructure investment needs of many borrowers into one borrowing pool. OSIFA offers low-cost and longer-term financing to assist borrowers in renewing their infrastructure. The loans provided by OSIFA will be a key vehicle to achieving critical infrastructure objectives, particularly for many small municipal and other broader public-sector borrowers. Larger borrowers can benefit from significant savings on transaction costs.

OSIFA's 2004-05 infrastructure renewal loan program, announced in the 2004 Ontario Budget, is focusing on Ontario's municipalities, offering affordable infrastructure financing for key municipal priorities: clean water infrastructure, sewage and waste management infrastructure, municipal roads and bridges, public transit, municipal long-term care facilities and renewal of municipal social housing. OSIFA is assisting 170 Ontario municipalities in communities across the province. Over \$2 billion in OSIFA financing is helping these municipalities with infrastructure investments for over 1,000 local projects.

Infrastructure Renewal Bonds

Funding for the Authority's infrastructure renewal loan program will come from the proceeds of the sale of Infrastructure Renewal Bonds (IRBs). These bonds will be available to institutional and individual investors. They will offer an investment that is backed by the credit strength of the broader public sector. As promised in the 2004 Ontario Budget, the first issue of IRBs will take place later this fiscal year. IRBs will provide local investors with a solid investment for their families and an opportunity to invest in Ontario's local infrastructure.

Ontario Strategic Infrastructure Financing Authority Loans/Commitments

Category	Category Commitments	Total Loans/ Commitments	
		(\$ Millions)	%
Clean Water Infrastructure	126	599	28
Sewage Infrastructure	83	641	30
Waste Management Infrastructure	17	67	3
Municipal Roads	70	434	20
Municipal Bridges	41	83	4
Public Transit	13	161	7
Municipal Long-Term Care	10	181	8
Total		2,166	100

Note: Numbers may not add due to rounding.

Source: Ontario Strategic Infrastructure Financing Authority.

Some examples of OSIFA's low-cost loans include over \$5 million for sewage infrastructure in St. Clair Township; \$0.9 million for clean water in Killarney; \$0.3 million for bridges in Thames Centre; and \$6.7 million for roads in the County of Dufferin.

Round 2 of OSIFA's 2004 loan program closed on October 29, 2004. An announcement indicating the approved municipal applications will be made shortly. For more information on OSIFA's loan program, please visit www.osifa.on.ca.

Section II: Medium-Term Fiscal Plan and Outlook

MEDIUM-TERM FISCAL PLAN

In 2000-01, program spending by the previous government began to grow significantly faster than the rate of growth in taxation revenues, gradually creating the conditions for the fiscal imbalance or structural deficit that persists today. The current government's plan to eliminate the structural deficit will be achieved by transforming and modernizing government, and by holding program spending growth to less than the rate of growth in taxation revenues over the medium term.

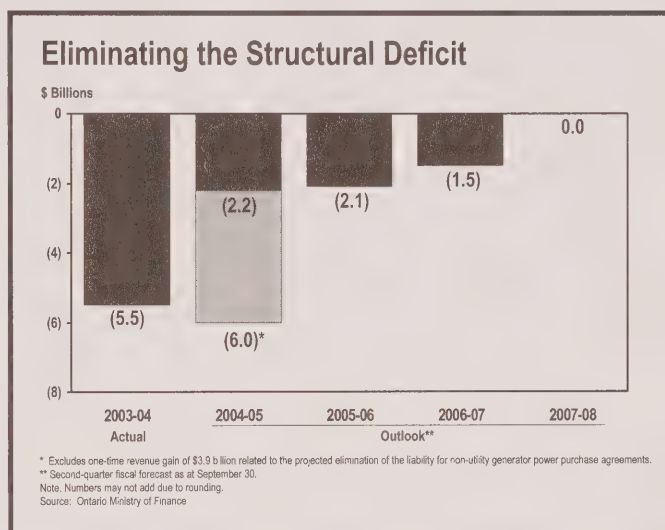
The 2004 Budget laid out a clear four-year strategy to eliminate the structural deficit and achieve a balanced budget through a mix of revenue generation, cost-containment measures and economic growth initiatives. The government's medium-term fiscal plan includes steadily declining deficit targets of \$2.2 billion in 2004-05, \$2.1 billion in 2005-06, \$1.5 billion in 2006-07 and a balanced budget by 2007-08.

The government is on track to meet these targets. As at September 30, the projected fiscal outlook is a deficit of \$2,168 million in

2004-05, an improvement of \$71 million from the target set out in the 2004 Budget. The deficit target of \$2.2 billion includes a one-time revenue gain of \$3.9 billion related to the projected elimination of the above-market liability for power purchase agreements with non-utility generators, if the proposed new legislation is passed, and the electricity market structure is in place this fiscal year.

MEDIUM-TERM FISCAL OUTLOOK

The government's medium-term fiscal outlook originally outlined in the 2004 Budget has been updated to reflect the impact of the recent First Ministers' health agreement. As a result of the agreement, Provincial revenues and Ministry of Health and Long-Term Care spending have both increased by \$0.8 billion in 2004-05, \$1.2 billion in 2005-06, and \$1.3 billion in 2006-07 and 2007-08. The government's deficit targets for the medium term are unchanged, culminating in a balanced budget in 2007-08.



The following table outlines the current medium-term fiscal plan and outlook for the Province, including details of key revenue sources and planned spending for key sectors through to 2007-08.

Medium-Term Fiscal Outlook* (\$ Billions)				
	2004-05	2005-06	2006-07	2007-08
Revenue				
Taxation Revenue	54.0	57.7	60.6	63.5
Government of Canada	11.6	12.9	12.7	13.1
Income from Government Enterprises	3.5	4.1	4.0	4.1
Other Non-Tax Revenue**	10.0	6.4	6.5	6.6
Total Revenue	79.0	81.1	83.9	87.3
Expense				
Programs				
Health Care	30.5	32.1	33.2	34.1
Change Fund - Health Care***	0.6			
Education	10.6	11.3	11.7	12.0
Training, Colleges and Universities	4.2	4.3	4.3	4.4
Social Services	9.1	9.4	9.6	9.7
Justice	2.9	2.9	2.8	2.8
Other Programs	9.6	8.5	8.6	8.9
Total Programs	67.5	68.4	70.2	71.9
Capital	2.6	2.5	2.5	2.5
Interest on Debt	10.1	10.8	11.1	11.5
Total Expense	80.2	81.7	83.9	85.8
Reserve	1.0	1.5	1.5	1.5
Surplus / (Deficit)	(2.2)	(2.1)	(1.5)	0.0

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

*** Expense outlook for 2004-05 includes a one-time Change Fund of \$1.0 billion, including \$0.6 billion to assist with the transformation of the health care sector.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Revenue

The medium-term revenue outlook from 2005-06 to 2007-08 is unchanged from the 2004 Budget, except for the additional revenues provided as a result of the First Ministers' health agreement. While there have been a number of changes in the composition of the revenue outlook in the current year, it is expected that these changes will largely offset each other over the medium term.

Total revenue in 2007-08 is projected at \$87.3 billion, an increase of \$8.3 billion or 10.5 per cent over the 2004-05 forecast of \$79.0 billion. Apart from \$3.9 billion in one-time revenues arising in 2004-05 from the projected elimination of the liability associated with power purchase agreements with non-utility generators, the forecast growth of revenue between 2004-05 and 2007-08 is 16.2 per cent.

- Taxation Revenue is forecast to increase by \$9.5 billion between 2004-05 and 2007-08, at an average annual growth rate of 5.6 per cent. The average annual growth rate of nominal gross domestic product over the 2005 to 2007 period is 5.1 per cent. The maturation of measures announced in the 2004 Budget, particularly the proposed Ontario Health Premium that will be fully implemented in 2005-06, boosts the growth of Provincial tax revenues above what would normally be expected given the economic outlook.
- Federal Payments to Ontario are forecast to increase by \$1.5 billion between 2004-05 and 2007-08, with an average annual growth rate of 4.1 per cent. The projection is consistent with the current federal-provincial transfer arrangements and funding formula, and includes the new funding provided under the First Ministers' health agreement of \$824 million in 2004-05, \$1.2 billion in 2005-06, and \$1.3 billion in 2006-07 and 2007-08.
- Income from Government Enterprises is forecast to rise by \$0.6 billion between 2004-05 and 2007-08, with an average annual growth rate of 5.8 per cent.
- Other Non-Tax Revenue is forecast to increase by \$0.5 billion between 2004-05 and 2007-08, at an average annual growth rate of 2.6 per cent, excluding \$3.9 billion in one-time revenues arising in 2004-05 from the projected elimination of the liability associated with power purchase agreements with non-utility generators.

Expense

Over the medium term, total expense will rise from \$80.2 billion this year to \$85.8 billion in 2007-08, an increase of \$5.6 billion. Annual growth in total expense will average 2.3 per cent over this period, down from the 8.6 per cent rate of growth projected for 2004-05, a transition year as the Province moves to results-based fiscal planning and budgeting.

This slowing of Provincial spending growth over the medium term reflects:

- the maturing of the results-based planning process with improved accountability in Provincial spending; and
- a greater realignment of fiscal planning and budgeting to focus on the government's priorities and results.

In order to address the structural deficit inherited from the previous government and ensure a sustainable fiscal policy, program spending growth over the medium term will be held to a rate well below the rate of growth in taxation revenue.

To modernize and transform public services, a comprehensive review of programs the government delivers is underway. The composition of ministries' multi-year results-based planning numbers could vary significantly. These numbers will be reported in the 2005 Ontario Budget.

Reserve

Reserves of \$1.0 billion in 2004-05, growing to \$1.5 billion in subsequent years, have been included in the medium-term fiscal outlook to protect against unexpected and adverse changes in the economic and fiscal outlook.

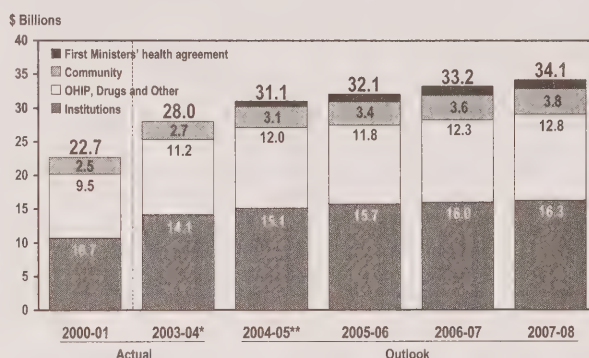
SECTOR OUTLOOK

Health Care

In September 2004, the Ontario Government, along with the other provinces and the federal government, signed a national health care agreement (First Ministers' health agreement) that will provide additional funds for health care including funding to help shorten wait times. As a result of the First Ministers' health agreement, spending in health care services is projected to increase by \$824 million in 2004-05, \$1.2 billion in 2005-06, and \$1.3 billion in 2006-07 and 2007-08 above otherwise planned levels as noted in the 2004 Budget.

Including this additional new federal funding, health care base program funding over the medium term will rise by more than \$3.0 billion from \$31.1 billion in 2004-05 to \$34.1 billion in 2007-08. Excluding the additional funds from the First Ministers' health agreement, major areas of health care spending in 2004-05 include \$11.3 billion in operating support to Ontario's 152 hospitals and \$7.1 billion in OHIP payments to physicians and other service providers. The remainder of more than \$11.8 billion in health care spending supports a wide range of services, including funding for drug

Health Operating Spending



* Excludes SARS-related health costs of \$0.6 billion and major one-time costs of \$0.2 billion.

** Includes \$0.6 billion for initiatives funded through the Change Fund in 2004-05.

Note: Numbers may not add due to rounding. 2000-01 has been restated. See Tables and Graphs section for more details. Source: Ontario Ministry of Finance.

programs, long-term care facilities, home care and other community services.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

Shorter waiting times for key services

- Reduce waiting times for MRIs and CT scans, cancer care, cataract and cardiac procedures, and hip and knee joint replacements

More families with access to primary health care

- Establish 150 Family Health Teams to provide comprehensive primary care

Preventing illness, promoting wellness

- Reduce illnesses from smoking, obesity and environmental pollution

Education

Ministry of Education operating spending is projected to increase from \$10.6 billion in 2004-05 to \$12.0 billion in 2007-08. On a school-year basis, funding to school boards through the Grants for Student Needs (GSN) will increase by \$2.1 billion in 2007-08 over the 2003-04 level. Per-student funding over the same period will increase by more than 14 per cent to nearly \$9,100 in 2007-08, or over \$1,100 per student.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

Higher literacy and math achievement

- Increase the percentage of Grade 6 students performing at or above the standard on the Provincial reading and math tests to 75%
- Improve the performance of those schools where 2/3 or more of the students do not meet the Provincial standard in Grade 3 reading tests

Lower high school drop-out rate

- Reduce the number of students who leave high school without a diploma

To support a better learning environment, the medium-term plan includes enhancements such as \$90 million in 2004-05 to begin to cap class sizes at 20 students for junior kindergarten to Grade 3 and \$200 million annually, starting in 2005-06, for an infrastructure fund to repair crumbling schools. Additional enhancements include \$133 million in 2004-05, annualizing to \$250 million in 2005-06, primarily to provide resources to teachers to help every child progress towards achieving the provincial standard in literacy and math and

turnaround teams of experts working with poor-performing schools to improve student performance.

Training, Colleges and Universities

To support post-secondary education, student financial assistance, and apprenticeship and training programs, the operating spending of the Ministry of Training, Colleges and Universities is projected to increase by \$0.5 billion between 2003-04 and 2007-08. Post-secondary funding in 2004-05 includes \$3.0 billion to support the basic operating costs of colleges and universities and to assist in increasing enrolment in post-secondary education by 50,000 students. Student financial assistance of \$0.4 billion in 2004-05 will be provided for the Ontario Student Assistance Program, scholarships and bursaries. The Province has launched a Post-secondary Review, headed by former premier Bob Rae, to provide advice about the design and funding of Ontario's post-secondary education system.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

A skilled workforce

- Increase participation in post-secondary education and skills training
- Increase the percentage of internationally trained people becoming qualified to work in Ontario

In addition, Ministry spending over four years on training and apprenticeship program activities, set at \$0.3 billion in 2004-05, will increase the number of apprenticeship registrations by 7,000 annually. This spending will also support the integration of internationally trained professionals into Ontario, including

bridging training programs that provide Canadian work experience.

Social Services

Funding for the social services sector, which includes the Ministries of Community and Social Services, and Children and Youth Services, is projected to increase \$0.6 billion by 2007-08 from the 2004-05 level. In 2004-05, operating expense in the Ministry of Community and Social Services includes \$4.6 billion to provide assistance to individuals and families through Ontario Works, Ontario Disability Support and the Ontario Drug Benefit Plan. In addition, \$1.0 billion is provided this year for support services for people with developmental disabilities, including community living, respite care and specialized community supports.

The major components of spending in the Ministry of Children and Youth Services include \$1.1 billion in 2004-05 for child welfare services and \$0.6 billion for child care supports, including child care fee subsidies to help make the system more affordable.

Justice Sector

The justice sector, comprising the Ministry of the Attorney General and Ministry of Community Safety and Correctional Services, will spend \$2.9 billion in 2004-05 to support justice programs and build stronger, safer communities. This funding will support the operation of 40 Provincial jails and detention centres, housing an average of about 7,700 offenders each day, and the supervision of another 80,000 offenders serving sentences in the community. Other key justice sector programs and services include legal aid and victims' services, the funding of about 5,000 Ontario Provincial Police officers across the province and the operation of over 250 courts, prosecuting about 500,000 charges a year.

Other Program Spending

Funding for all other Provincial programs in 2004-05 is \$9.6 billion. Spending in this sector focuses on such varied areas as ensuring that Ontario has a clean environment, competitive business climate, efficient government services and a reliable supply of energy.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

Competitive business environment

- Ensure a competitive business environment that will attract jobs to, and investment in, Ontario's economy
- Ensure a reliable energy supply

Modern, efficient public services

- Deliver timely, cost-effective and accountable public services

This funding also supports the Ontario Automotive Investment Strategy, a \$500 million multi-year funding commitment, that will increase investment in new innovative technologies and enhanced skills training to ensure Ontario maintains its competitive advantages in automobile and parts production.

To modernize and transform public services, a comprehensive review of programs the government delivers is underway. The composition of ministries' multi-year results-based planning numbers could vary significantly. These numbers will be reported in the 2005 Ontario Budget.

INFRASTRUCTURE INVESTMENT

Investments for Economic Growth and Quality of Life

Modernizing Ontario's Transportation Infrastructure

- Two cents of the gas tax for municipal transit systems, started with the first cent this October.
- New Canada-Ontario Municipal Rural Infrastructure Fund for rural roads and bridges and water and waste water management projects.
- Projects underway to improve the Windsor, Niagara and Sarnia border crossings, including improvements to the Windsor-Detroit Tunnel Plaza and to the Queenston-Lewiston Bridge. Planning for potential new or expanded border crossings in Windsor and Niagara is proceeding through two bi-national processes.
- First phase of cross-GTA Bus Rapid Transit system under construction in Mississauga.
- Investments to make GO Transit more convenient and attractive, including brand-new stations in Brampton and Newmarket and expanded parking lots at the Whitby, Ajax and Clarkson stations.
- An environmental assessment is underway relating to the extension of the Spadina subway line.
- Environmental assessments for the new Waterloo LRT and expansion of the Ottawa O-Train.
- Long-term program to rebuild Highway 401 through Toronto is well underway, improving safety and relieving congestion.
- Highway 69 safety initiative between Sudbury and Parry Sound to add paved shoulders, truck lay-by stations and electronic signs with traffic and weather condition updates.

Infrastructure is fundamental to a prosperous economy, modern and efficient public services, and Ontario's high quality of life. Its impact on productivity is profound. Every additional \$1 million invested in public infrastructure reduces Ontario business costs by \$200,000 annually.

Ontario's gross capital investment of \$3.3 billion in 2004-05 will help improve the transportation networks vital to the economy, help reduce wait times for health services, improve learning environments for students, and contribute to a cleaner environment.

This investment is being used to keep our current assets in good working order, to upgrade them to meet new standards or provide better services, and to build new infrastructure to accommodate economic and population growth.

Transforming Ontario's Health Infrastructure

- New and expanded regional cancer centres to reduce wait times and provide treatment closer to home: Lakeridge Health in Oshawa, Credit Valley Hospital, the Hamilton Health Sciences Centre and the Grand River Hospital in Kitchener.
- Modernization and expansion projects worth over \$25 million each are in progress at nearly 40 hospitals in communities across the province including Toronto, Brampton, Mississauga, Hamilton, London, Windsor, Orillia, Ottawa and Parry Sound.
- Upgrading children's treatment centres in North Bay, London, Windsor and Thunder Bay.

The government is also planning for the long term. For the first time, the Province is developing a Ten-Year Infrastructure Plan. The new growth management plan for the Greater Golden Horseshoe Area will help guide future infrastructure investments in ways that accommodate growth while preserving green space and valuable agricultural land.

Investing in Ontario's Education & Research Infrastructure

- More than 21,000 new spaces over three years at 13 colleges and universities.
- A new \$2 billion investment to repair crumbling schools across the province.
- \$25 million for research infrastructure.

The government has established a Water Expert Panel to provide advice on the future organization, governance, investment, financing and pricing of Ontario's water and wastewater systems (www.waterpanel.ontario.ca).

The Province will soon be launching, with the federal government and the Association of Municipalities of Ontario, the \$900 million Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) for small and rural municipalities to improve water and wastewater treatment systems, waste management and to fix local roads and bridges.

Ontario's global competitive position depends upon leading-edge research. The Province will create a new Ontario research fund that will provide \$300 million over four years for research infrastructure in hospitals, post-secondary institutions and other research institutes, including \$25 million this year.

MODERNIZING GOVERNMENT

The 2004 Ontario Budget included a commitment to undertake a comprehensive review of the programs the government delivers, in order to ensure the long-term fiscal viability of the programs that matter most to Ontarians.

This review process, co-ordinated through the Ministry of Finance, is a systematic effort to align long-term budgeting with priorities and results. The government's focus is on modernizing and transforming public services to achieve long-term, cost-effective results.

The first measures in this review include:

- Identifying opportunities for federal-provincial streamlining.
- Modernizing inter-ministry service delivery and transactions, including:
 - reviewing Ontario's annual expenses on information technology, which exceed \$0.9 billion;
 - reviewing Ontario's internal purchasing and business transactions;
 - supporting the OntarioBuys Working Group in work underway to identify and expand best practices in supply chain management in Ontario's broader public sector, with a focus on Ontario's hospitals; and
 - finalizing the implementation of the government-wide Integrated Financial Information System (IFIS).

The results of these and other modernizing government initiatives will be reported on in the coming weeks and months, in keeping with the government's commitment to open, accountable public-sector management.

MAINTAINING A PRUDENT DEBT-TO-GDP RATIO

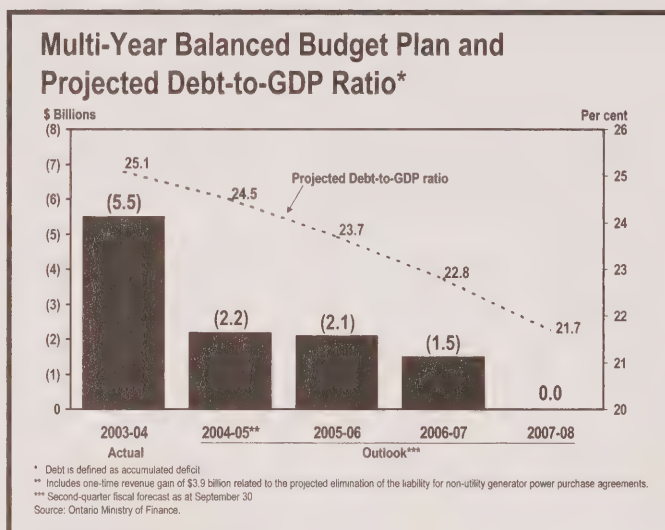
As part of the government's plan to eliminate the structural deficit and ensure that the Province lives within its means, the government is committed to maintaining a prudent level of Provincial debt relative to the size of Ontario's economy or Gross Domestic Product (GDP). This objective is consistent with the reforms identified in the 2004 Budget and outlined in the government's proposed Fiscal Transparency and Accountability Act (FTAA).

Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing interest on debt charges "crowd out" funds available for spending on other government priorities. In fact, over the past 25 years, the share of total expense devoted to paying interest on Ontario's debt has more than doubled: from about 6 per cent of total expense in 1978-79 to 13 per cent in 2003-04.

High debt levels can also incur intergenerational costs, where the current consumption of Ontario's services is paid for by future generations. Should legitimate circumstances arise wherein the government determines that deficits are necessary in order to respond effectively to short-term economic and fiscal considerations and priorities, the FTAA would require the government to indicate how it plans to return the Province's books to balance.

It is important to note that the performance of the debt-to-GDP ratio is heavily dependent upon a range of factors—including, for example, variations in the economic and fiscal outlook. For example, assuming all fiscal targets are met, a sustained one percentage point change in nominal GDP growth over the medium term could affect the debt-to-GDP ratio by +/- 0.8 percentage points by 2007-08. There are other risks as well, like changing the composition of the Province's reporting entity to reflect the financial position of school boards and school authorities, community colleges and hospitals.

Consistent with its plan to balance the budget, the government is committed to improving the Province's debt-to-GDP ratio by three percentage points from 25.1 per cent in 2003-04 to no more than 22 per cent by 2007-08. By achieving this target, the government will have reduced the Province's debt-to-GDP ratio to its lowest level in 15 years.



Section III: Potential Risks, Cost Drivers and Contingent Liabilities

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions or program demand. It should be cautioned that these sensitivities and risks are only useful guidelines and can vary, depending on the nature and composition of potential risk.

THE ONTARIO ECONOMY AND PROVINCIAL REVENUES

A growing economy with rising incomes and consumer spending generates higher revenues to pay for public services. Taxation revenues comprise the largest category of revenue for the Provincial government. Of the \$79 billion forecast as Provincial revenue for 2004-05, \$54 billion or about 68 per cent is expected to come from taxation revenue. Three revenue sources within this category—Personal Income Tax, Retail Sales Tax and Corporations Tax—account for 53 per cent of total revenue. Inherent in any multi-year revenue forecast is uncertainty about the future.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Total Taxation Revenues		
- Revenue Base ¹	3.9 per cent growth	\$505 million change in revenues per percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
- Real GDP	2.3 per cent growth in 2004	
- Nominal GDP	4.4 per cent growth in 2004	
- GDP Deflator	2.0 per cent growth in 2004	
Personal Income Tax Revenues		
Tax Assessments		
- Revenue Base	\$18.3 billion in 2003 4.2 per cent growth in 2004-05	\$365 million change in 2004-05 revenues for each percentage point change in 2003 tax assessments. ^{2,4}
Key Economic Assumptions		
- Employment	1.7 per cent growth in 2004	\$220 million change in 2004-05 revenues for each percentage point change in wages and salaries growth.
- Wages and Salaries	3.3 per cent growth in 2004	
- Unincorporated Business Income	5.1 per cent growth in 2004	
Key Revenue Assumptions		
- Net Capital Gains Income	4.4 per cent growth in 2004	\$5 million change in revenue per one percentage point change in net capital gains income growth.
- RRSP Deductions	4.9 per cent growth in 2004	
		\$10 million change in revenue per one percentage point change in RRSP deductions growth.
Retail Sales Tax Revenues		
- Revenue Base	4.0 per cent growth	\$90 million change in revenue per percentage point change in nominal consumption expenditure growth.
Includes:		
- Taxable Consumer Spending	2.0 per cent growth	
- Other Taxable Spending	6.4 per cent growth	
Key Economic Assumptions		
- Retail Sales	2.9 per cent growth in 2004	
- Nominal Consumption Expenditure	3.7 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Corporations Tax Revenues		
- Revenue Base	5.8 per cent growth	\$50 million change in revenue per percentage point change in pre-tax corporate profit growth.
- Corporate Profits	8.6 per cent growth in 2004	
- 2003-04 tax assessment refunds ³	\$1.7 billion payable	
		\$34 million change in the opposite direction in revenue per one percentage point change in 2003-04 refunds. ⁴
Employer Health Tax Revenues		
- Revenue Base	3.1 per cent growth	\$30 million change in revenue per percentage point change in wages and salaries growth.
- Wages and Salaries	3.3 per cent growth in 2004	
Ontario Health Premium Revenues		
- Revenue Base	4.3 per cent growth	\$20 million change in revenue per percentage point change in personal income growth.
- Personal Income	3.5 per cent growth in 2004	
Gasoline Tax Revenues		
- Revenue Base	0.0 per cent growth	\$8 million change in the opposite direction in revenue per one cent per litre change in gasoline prices.
- Gasoline pump prices	80 cents per litre	
Fuel Tax Revenues		
- Revenue Base	6.3 per cent growth	\$10 million change in revenue per percentage point change in real GDP growth.
- Real GDP	2.3 per cent growth in 2004	
Land Transfer Tax Revenues		
- Revenue Base	9.0 per cent growth	\$10 million change in revenue per percentage point change in both the number and prices of housing resales.
- Housing Resales	6.1 per cent growth in 2004	
- Resale Prices	7.2 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Health and Social Transfers		
- Canada-wide Revenue Base	\$21.6 billion	\$30 million change in revenue per one-tenth percentage point change in population share.
- Ontario Population Share	38.8 per cent	
- Ontario PIT Base Share	44.0 per cent	\$10 million change in the opposite direction in revenue per one-tenth percentage point change in PIT base share.
- Ontario Revenue Share	37.1 per cent	

1. Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.
2. Ontario 2003 Personal Income Tax (PIT) revenue is currently an estimate because 2003 tax returns are currently being assessed by Canada Revenue Agency.
3. Corporations Tax refunds arising during 2003-04 are still an estimate because tax returns for corporate fiscal years ending in Ontario's 2003-04 fiscal year are still being assessed by the Tax Revenue Division of the Ontario Ministry of Finance.
4. Now that 2003-2004 Public Accounts of Ontario have been finalized, any change in 2003 PIT assessments or 2003-04 Corporations Tax revenues will have a dual effect on 2004-05 revenues through a) a change in the revenue base upon which this year's growth is applied, and b) a revenue adjustment applied against the current year in respect of any variance from the estimate included in the 2003-2004 Public Accounts.

EXPENSE RISKS AND SENSITIVITIES

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on averages for program areas and might change, depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities		
Program	2004-05 Assumption	Sensitivities
Hospitals	Annual growth of 4.4 per cent	One per cent change in hospital funding: \$113 million.
Drug Programs	Annual growth of 8.3 per cent (in health/seniors)	One per cent change in utilization of all drug programs: \$31 million (seniors and social assistance recipients).
Home Care/Community Services	Over 15.6 million hours of homemaking and support services	One per cent change in hours of homemaking and support services: \$4 million.
	7.9 million nursing and professional visits	One per cent change in nursing and professional visits: \$5 million.
Long-Term Care Facilities	Approximately 74,400 long-term care facility beds	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care facility is over \$33,000. One per cent change in number of beds: \$25 million.
Elementary and Secondary Schools	Almost 2 million average daily pupil enrolment	One per cent enrolment change: \$160 million.
College Students	151,000 full-time students	One per cent enrolment change: \$6 million.
University Students	295,000 full-time students	One per cent enrolment change: \$20 million.
Ontario Works	196,000 average annual caseload	One per cent caseload change: \$15 million.
Ontario Disability Support Program	225,000 average annual caseload	One per cent caseload change: \$22 million.

Selected Expense Risks and Sensitivities

Program	2004-05 Assumption	Sensitivities
Judicial System	2.8 million adult inmate days per year	Average cost \$155 per inmate per day. One per cent change in inmate days: \$4 million.
Interest on Debt	Average cost of borrowing at the time of the 2004 Budget was expected to be approximately 4.9 per cent.	The impact of a 100 basis-point change in borrowing rates is expected to be approximately \$150 million.

COMPENSATION COSTS

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public-sector partners and the Province.

Sector	Cost of 1% salary increase	Size of Sector
OHIP Payments to Physicians	\$58 million*	Over 21,000 physicians in Ontario, comprising 10,000 family doctors and 11,000 specialists.
Hospital Nurses	\$34 million*	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff	\$119 million**	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service	\$45 million*	Over 60,000 public servants.

* Based on 2003-04.

** One per cent increase to salary benchmarks in Grants for Student Needs based on 2004-05 school year.

CONTINGENT LIABILITIES

Consistent with the recommendations of the proposed Fiscal Transparency and Accountability Act (FTAA), the following is a disclosure of the contingent liabilities of the Province. It is reproduced from the 2003-2004 Annual Report and Consolidated Financial Statements of the 2003-2004 Public Accounts of Ontario, released in September 2004.

Obligations Guaranteed by the Province

The authorized limit for loans guaranteed by the Province as at March 31, 2004 was \$4.4 billion (March 31, 2003, \$5.2 billion). The outstanding loans guaranteed and other contingencies amounted to \$3.4 billion at March 31, 2004 (March 31, 2003, \$4.1 billion). A provision of \$397 million (March 31, 2003, \$391 million) based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the 2003-2004 Annual Report and Consolidated Financial Statements of the Province.

Ontario Nuclear Funds Agreement

The Province, Ontario Power Generation Inc. (OPG, a wholly owned subsidiary) and certain subsidiaries of OPG, are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds, for a fixed volume of used fuel. The likelihood and amount by which the cost estimate could rise above these thresholds cannot be determined at this time. The cost estimate will be updated periodically, to reflect new developments in the management of nuclear used fuel waste.

As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used fuel waste management fund. If the earnings on assets in that fund exceed the guaranteed rate, the Province is entitled to the excess.

On July 31, 2003, two agreements came into effect to satisfy the Canadian Nuclear Safety Commission (CNSC) licensing requirements for financial guarantees in respect of OPG's nuclear station decommissioning and nuclear waste management obligations. One agreement, between the Province, OPG and the CNSC, gives CNSC access to the segregated funds established under ONFA. The other agreement, between the Province and CNSC, provides a direct provincial guarantee to CNSC on behalf of OPG. This guarantee, for up to \$1.5 billion, relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds. In return, the Province will receive from OPG an annual fee equal to 0.5 per cent of the value of the direct provincial guarantee.

Social Housing—Loan Insurance Agreements

For all non-profit housing projects in the Provincial portfolio, the Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation (CMHC) for any net costs, including any environmental liabilities, incurred as a result of project defaults, directly or indirectly, through the Ministry of Municipal Affairs and Housing or Ontario Housing Corporation.

At March 31, 2004, there were \$9.0 billion (March 31, 2003, \$9.3 billion) of mortgage loans outstanding. As operating subsidies provided are sufficient to ensure that all mortgage payments can be made when due, default is unlikely. To date, there have been no claims for defaults on insured mortgage loans.

Claims Against the Crown

At March 31, 2004, there were claims outstanding against the Crown of which 80 (March 31, 2003, 77) are for amounts over \$50 million. These claims arise from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property and like items, and are listed in Volume 1, 2003-2004 Public Accounts of Ontario, Section 3. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain.

Conclusion

Upon assuming office, the government inherited a structural deficit. This imbalance between revenues and expense did not happen overnight, but was several years in the making. Unless addressed, this fiscal imbalance would lead to continued chronic and unacceptable deficits through the medium term.

The 2004 Ontario Budget laid out a four-year strategy to eliminate this structural deficit and achieve a balanced budget. The government's medium-term plan achieves this through a mix of revenue generation, cost-containment measures and economic growth initiatives. At the same time, the government's plan takes a balanced and responsible approach to deficit reduction by providing funding for necessary public services and programs.

While the recent provision of additional funding from the federal government for health care was welcome, the fiscal challenges facing the Province are significant. Addressing these challenges will require ongoing vigilance and a commitment to the government's medium-term fiscal plan.

Tables and Graphs

Statement of Financial Transactions
(\$ Millions)

Table 1

	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05
Revenue**	66,294	66,534	68,891	68,400	79,041
Expense					
Programs	51,396	53,932	57,204	62,104	67,520
Capital***	2,123	1,890	1,876	2,175	2,575
Interest on Debt	10,873	10,337	9,694	9,604	10,114
Total Expense	64,392	66,159	68,774	73,883	80,209
Reserve	-	-	-	-	1,000
Surplus / (Deficit)	1,902	375	117	(5,483)	(2,168)
Net Debt†	132,496	132,121	132,647	138,557	141,493
Accumulated Deficit†	132,496	132,121	118,705	124,188	126,356

Note 2000-01 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

*** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Revenue
(\$ Millions)

Table 2

	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05
Taxation Revenue					
Personal Income Tax	17,911	19,097	18,195	18,301	19,050
Retail Sales Tax	13,735	13,803	14,183	14,258	14,876
Corporations Tax	9,200	6,646	7,459	6,658	8,250
Employer Health Tax	3,424	3,502	3,589	3,753	3,862
Gasoline Tax	2,172	2,192	2,306	2,264	2,263
Fuel Tax	648	659	682	681	716
Ontario Health Premium	-	-	-	-	1,622
Tobacco Tax	504	703	1,183	1,350	1,452
Land Transfer Tax	642	665	814	909	977
Electricity Payments-In-Lieu of Taxes	907	387	711	627	630
Other Taxes	333	371	429	347	259
	49,476	48,025	49,551	49,148	53,957
Government of Canada					
Canada Health and Social Transfer (CHST)	4,138	5,831	7,346	6,958	-
Canada Health Transfer (CHT)	-	-	-	-	5,065
Canada Social Transfer (CST)	-	-	-	-	2,924
CHST Supplements	757	380	191	577	775
Social Housing	541	524	525	528	521
Health Reform Fund	-	-	-	387	582
Medical Equipment	190	190	-	192	387
Wait Times Reduction Fund	-	-	-	-	242
Infrastructure	2	-	97	150	267
Other Government of Canada	501	829	735	1,101	859
	6,129	7,754	8,894	9,893	11,622
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,181	2,255	2,288	2,106	2,015
Liquor Control Board of Ontario	877	904	939	1,045	1,108
Ontario Power Generation Inc. and Hydro One Inc.	783	179	717	(17)	335
Other Government Enterprises	14	7	(2)	(64)	(5)
	3,855	3,345	3,942	3,070	3,453
Other Non-Tax Revenue					
Net Reduction of Power Purchase Contract Liability**	-	-	161	104	4,024
Reimbursements	1,809	1,592	1,111	1,206	1,252
Electricity Debt Retirement Charge	-	-	889	1,000	1,009
Vehicle and Driver Registration Fees	929	941	982	985	987
Power Sales	695	815	635	510	675
Other Fees and Licences	503	474	606	594	536
Liquor Licence Revenue	525	530	530	488	507
Sales and Rentals	637	344	560	532	403
Royalties	235	224	304	248	239
Miscellaneous Other Non-Tax Revenue†	1,501	2,490	726	622	377
	6,834	7,410	6,504	6,289	10,009
Total Revenue†	66,294	66,534	68,891	68,400	79,041

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

† 2000-01 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

Operating Expense
(\$ Millions)

Table 3

Ministry	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05
Agriculture and Food [†]	635	775	616	673	549
Attorney General	969	995	1,052	1,199	1,172
Board of Internal Economy	116	124	146	196	149
Children and Youth Services	2,070	2,244	2,431	2,640	2,832
Citizenship and Immigration [†]	66	59	53	52	62
Community and Social Services [†]	5,800	5,807	5,842	5,995	6,317
Community Safety and Correctional Services [†]	1,419	1,513	1,656	1,666	1,738
Consumer and Business Services	155	172	178	182	213
Culture	236	279	331	303	277
Democratic Renewal Secretariat	-	-	-	-	4
Economic Development and Trade [†]	200	221	242	253	414
Education [†]	7,963	8,354	8,998	9,665	10,623
Teachers' Pension Plan (TPP)	(402)	42	238	235	359
Energy	344	367	144	116	137
Environment	190	265	237	261	304
Executive Offices	21	19	20	24	19
Finance - Own Account [†]	1,147	1,197	1,092	1,255	1,184
Interest on Debt	10,873	10,337	9,694	9,604	10,114
Change Fund	-	-	-	-	328
Community Reinvestment Fund	561	557	622	651	656
Electricity Consumer Price Protection Fund	-	-	665	253	-
Power Purchases	695	815	786	797	946
Health and Long-Term Care [†]	22,701	23,923	25,800	28,036	30,476
Change Fund	-	-	-	-	609
SARS-related and Major One-Time Health Costs	-	-	-	824	-
Intergovernmental Affairs	6	6	9	6	9
Labour	104	110	123	117	133
Management Board Secretariat [†]	144	246	186	214	356
Retirement Benefits	(33)	63	102	309	433
Contingency Fund	-	-	-	-	957
Municipal Affairs and Housing [†]	1,792	1,136	636	662	697
Native Affairs Secretariat [†]	17	13	16	15	14
Natural Resources	417	438	454	516	505
Northern Development and Mines	69	75	73	76	73
Office of Francophone Affairs	4	5	3	3	4
Public Infrastructure Renewal	9	15	33	18	31
Tourism and Recreation	124	143	135	209	184
Training, Colleges and Universities [†]	3,264	3,290	3,471	3,883	4,194
Transportation [†]	593	664	814	800	862
Year-End Savings	-	-	-	-	(300)
Total Operating Expense[†]	62,269	64,269	66,898	71,708	77,634

* Second-quarter fiscal forecast as at September 30.

† 2000-01 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

Capital Expense [†]
(\$ Millions)

Table 4

Ministry	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05
Agriculture and Food	1	29	68	1	7
Attorney General	42	46	43	24	55
Children and Youth Services	10	6	7	-	9
Community and Social Services	4	25	16	10	21
Community Safety and Correctional Services	99	88	66	47	42
Consumer and Business Services	-	-	1	1	2
Culture	18	14	42	24	70
Economic Development and Trade	-	19	21	31	52
Education	4	17	10	15	27
Energy	86	50	46	53	52
Environment	22	20	13	4	13
Finance	7	11	8	5	4
Health and Long-Term Care	322	205	339	358	346
Management Board Secretariat**	24	28	3	(33)	(13)
Municipal Affairs and Housing	-	12	20	206	237
Native Affairs Secretariat	5	3	2	-	2
Natural Resources	65	70	72	111	85
Northern Development and Mines	356	371	391	332	447
Public Infrastructure Renewal	4	-	4	18	168
Capital Contingency Fund	-	-	-	-	134
Tourism and Recreation	14	9	55	51	65
Training, Colleges and Universities	204	49	71	120	171
Transportation	836	818	578	797	679
Year-End Savings	-	-	-	-	(100)
Total Capital Expense [†]	2,123	1,890	1,876	2,175	2,575

[†] Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

* Second-quarter fiscal forecast as at September 30.

** Ministries' contributions for investments in Provincially owned land and buildings are recorded as an expense by the contributing ministries. Starting in 2002-03, any resulting adjustment to expense from the capitalization and amortization of most of these Provincially owned land and buildings is recorded in Management Board Secretariat.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

2004-05 Fiscal Outlook: Summary of In-Year Changes
(\$ Millions)

Table 5

	Actual 2003-04	Budget Plan 2004-05	Outlook* 2004-05	In-Year Change
Revenue**	68,400	78,360	79,041	681
Expense				
Programs	62,104	66,695	67,520	825
Capital	2,175	2,575	2,575	--
Interest on Debt	9,604	10,329	10,114	(215)
Total Expense	73,883	79,599	80,209	610
Reserve	--	1,000	1,000	--
Surplus / (Deficit)	(5,483)	(2,239)	(2,168)	71

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

Summary of In-Year Revenue Changes Since Budget
(\$ Millions)

Table 6

	In-Year Change
Revenue Changes This Quarter:*	
Personal Income Tax – an additional \$130 million primarily due to higher 2003 tax assessments.	130
Retail Sales Tax – a decline of \$160 million primarily due to weaker consumer durable goods expenditures, notably low levels of vehicle sales to date this year.	(160)
Gasoline Tax – a decline of \$65 million due to reduced consumption corresponding to higher pump prices for gasoline.	(65)
Land Transfer Tax – an additional \$50 million due to continued high levels of housing resales.	50
Federal Payments – an additional \$824 million based on the First Ministers' health agreement. This amount includes increases in Canada Health Transfer (\$388 million) and Medical Equipment revenues (\$194 million) and new revenues (\$242 million) for Wait Times Reduction Fund.	824
Ontario Lottery and Gaming Corporation – a decline of \$102 million largely due to lower earnings from the border casinos and lower Pro-Line lottery profits attributable to the National Hockey League labour dispute.	(102)
Liquor Control Board of Ontario – a decline of \$9 million due to lower mark-up revenues (\$8 million) and lower warehousing revenues (\$1 million) related to a move of warehousing and shipping functions for some products from the LCBO to the brewing industry. The decreased LCBO mark-up is fully offset by higher Liquor Licence Revenues.	(9)
Liquor Licence Revenue – an additional \$8 million due to an increase in fees collected by the Alcohol and Gaming Commission of Ontario related to a move of warehousing and shipping functions for some products from the LCBO to the brewing industry.	8
Miscellaneous Other Non-Tax Revenue – an additional \$1 million from the Proceeds of Crime and Civil Remedies Special Purpose Accounts to offset the cost of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05.	1
Total Revenue Changes This Quarter	677
Net Revenue Changes Reported in First Quarter Ontario Finances	4
Total Revenue Changes Since Budget	681

* Second-quarter fiscal forecast as at September 30.

**Summary of In-Year Operating Expense Changes Since Budget
(\$ Millions)**

Table 7

	In-Year Change
Operating Expense Changes This Quarter:*	
Ministry of the Attorney General – An additional \$1 million for implementation of the Integrated Financial Information System, fully offset from the Contingency Fund; \$8 million for the transfer of Justice Technology Services from the Ministry of Community Safety and Correctional Services; and \$1 million for the cost of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05, fully offset by revenue.	10
Ministry of Community Safety and Correctional Services – An additional \$1 million for implementation of the Integrated Financial Information System, fully offset from the Contingency Fund; and a decline of \$8 million for the transfer of Justice Technology Services to the Ministry of the Attorney General.	(7)
Ministry of Health and Long-Term Care – Spending to reflect First Ministers' health agreement, including \$194 million for purchases of medical equipment and \$630 million for investments to reduce wait times and improve access to primary care, home care and community mental health services.	824
Management Board Secretariat – An additional \$1 million for implementation of the Integrated Financial Information System, fully offset from the Contingency Fund.	1
Management Board Secretariat Contingency Fund – Total offsets.	(8)
Ministry of Municipal Affairs and Housing – An additional \$5 million for disaster relief assistance due to the flooding in Peterborough in July 2004 to support costs incurred by individuals, small businesses, and municipalities, fully offset from the Contingency Fund.	5
Interest on Debt – \$215 million in savings attributable to lower-than-planned interest rates and cost-effective debt management.	(215)
Total Operating Expense Changes This Quarter	610
Net Operating Expense Changes Reported in First Quarter Ontario Finances	--
Total Operating Expense Changes Since Budget	610

* Second-quarter fiscal forecast as at September 30.

Summary of In-Year Capital Expense Changes Since Budget (\$ Millions)	Table 8
--	----------------

	In-year Change
Capital Expense Changes This Quarter:*	
Ministry of Economic Development and Trade – An additional \$13 million for Ontario Research Fund to enable Ontario researchers to acquire and upgrade equipment and facilities to enhance research, fully offset from the Capital Contingency Fund.	13
Ministry of Municipal Affairs and Housing – An additional \$3 million for disaster relief assistance due to the flooding in Peterborough in July 2004 to support repair of public infrastructure, fully offset from the Capital Contingency Fund.	3
Public Infrastructure Renewal Capital Contingency Fund – Total Offsets	(16)
Total Capital Expense Changes This Quarter	--
Net Capital Expense Changes Reported in First Quarter Ontario Finances	--
Total Capital Expense Changes Since Budget	--

* Second-quarter fiscal forecast as at September 30.

Schedule of Net Investment in Capital Assets
(\$ Millions)

Table 9

	2004-05 Outlook*			Total
	Land and Buildings	Transportation Infrastructure	Government Organizations' Capital Assets	
Acquisition/Construction of Major Tangible Capital Assets	135	998	432	1,565
Amortization of Provincially Owned Major Tangible Capital Assets	(78)	(524)	(195)	(797)
Net Investment in Capital Assets**	57	474	237	768

* Second-quarter fiscal forecast as at September 30.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

Source: Ontario Ministry of Public Infrastructure Renewal.

Ten-Year Review of Selected Financial and Economic Statistics
(\$ Millions)

	1995-96	1996-97	1997-98
Financial Transactions			
Revenue**	49,737	49,714	52,782
Expense			
Programs	46,427	45,400	45,568
Capital***	3,635	2,612	2,451
Interest on Debt	8,475	8,607	8,729
Total Expense	58,537	56,619	56,748
Reserve	-	-	-
Surplus / (Deficit)	(8,800)	(6,905)	(3,966)
Net Debt†	101,864	108,769	112,735
Accumulated Deficit†	101,864	108,769	112,735
Gross Domestic Product (GDP) at Market Prices	329,317	338,173	359,353
Personal Income	271,397	276,303	289,537
Population—July (000s)	10,950	11,083	11,228
Net Debt per Capita (dollars)	9,303	9,814	10,041
Personal Income per Capita (dollars)	24,785	24,930	25,787
Total Expense as a per cent of GDP	17.8	16.7	15.8
Interest on Debt as a per cent of Revenue	17.0	17.3	16.5
Net Debt as a per cent of GDP	30.9	32.2	31.4
Accumulated Deficit as a per cent of GDP	30.9	32.2	31.4

Note 1995-96 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

*** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table 10

1998-99	1999-00	2000-01	2001-02	2002-03	Actual 2003-04	Outlook * 2004-05
56,050	65,042	66,294	66,534	68,891	68,400	79,041
46,821	48,460	51,396	53,932	57,204	62,104	67,520
2,215	4,887	2,123	1,890	1,876	2,175	2,575
9,016	11,027	10,873	10,337	9,694	9,604	10,114
58,052	64,374	64,392	66,159	68,774	73,883	80,209
-	-	-	-	-	-	1,000
(2,002)	668	1,902	375	117	(5,483)	(2,168)
114,737	134,398	132,496	132,121	132,647	138,557	141,493
114,737	134,398	132,496	132,121	118,705	124,188	126,356
377,897	409,020	441,204	453,384	479,122	494,229	516,069
304,652	321,702	347,592	360,209	370,340	379,737	393,084
11,367	11,506	11,685	11,898	12,102	12,257	12,393
10,094	11,681	11,339	11,104	10,961	11,304	11,417
26,801	27,959	29,747	30,275	30,602	30,981	31,718
15.4	15.7	14.6	14.6	14.4	14.9	15.5
16.1	17.0	16.4	15.5	14.1	14.0	12.8
30.4	32.9	30.0	29.1	27.7	28.0	27.4
30.4	32.9	30.0	29.1	24.8	25.1	24.5

**Multi-Year Balanced Budget Plan
(\$ Billions)**

Table 11

	Actual 2003-04	Outlook*			
		2004-05	2005-06	2006-07	2007-08
Revenue**	68.4	79.0	81.1	83.9	87.3
Expense					
Programs	62.1	67.5	68.4	70.2	71.9
Capital	2.2	2.6	2.5	2.5	2.5
Interest on Debt	9.6	10.1	10.8	11.1	11.5
Total Expense	73.9	80.2	81.7	83.9	85.8
Reserve	-	1.0	1.5	1.5	1.5
Surplus/(Deficit)	(5.5)	(2.2)	(2.1)	(1.5)	0.0
Net Debt[†]	138.6	141.5	144.5	147.0	147.8
Accumulated Deficit[†]	124.2	126.4	128.4	129.9	129.9
Gross Domestic Product (GDP) at Market Prices	494.2	516.1	542.3	569.8	599.3
Net Debt as a per cent of GDP	28.0	27.4	26.6	25.8	24.7
Accumulated Deficit as a per cent of GDP	25.1	24.5	23.7	22.8	21.7

* Second-quarter fiscal forecast as at September 30.

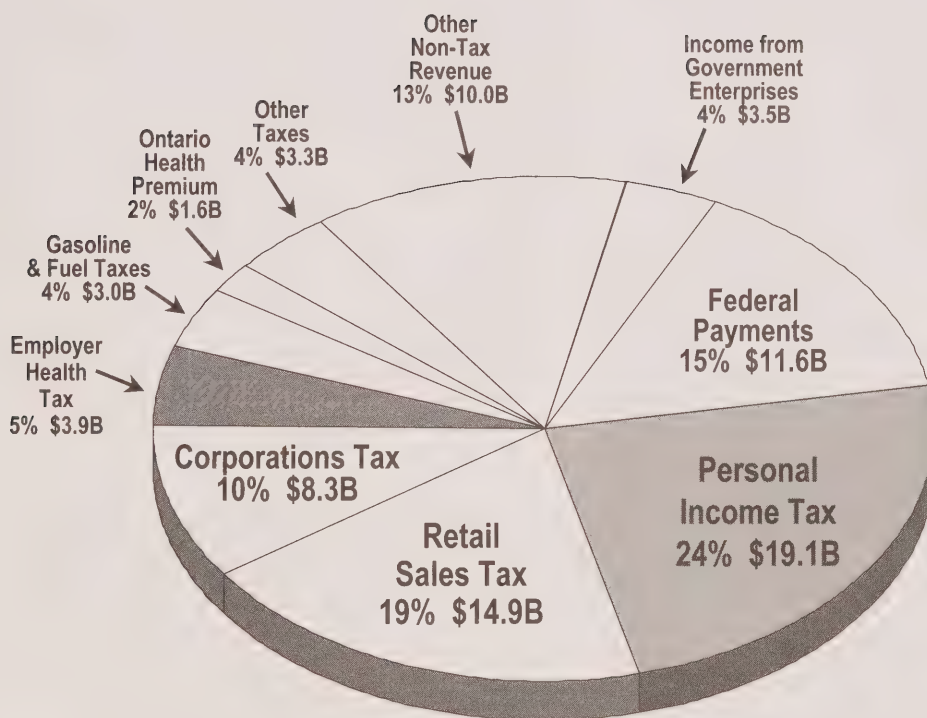
** Includes one-time revenue gain of \$3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Numbers may not add due to rounding.

Composition of Revenue

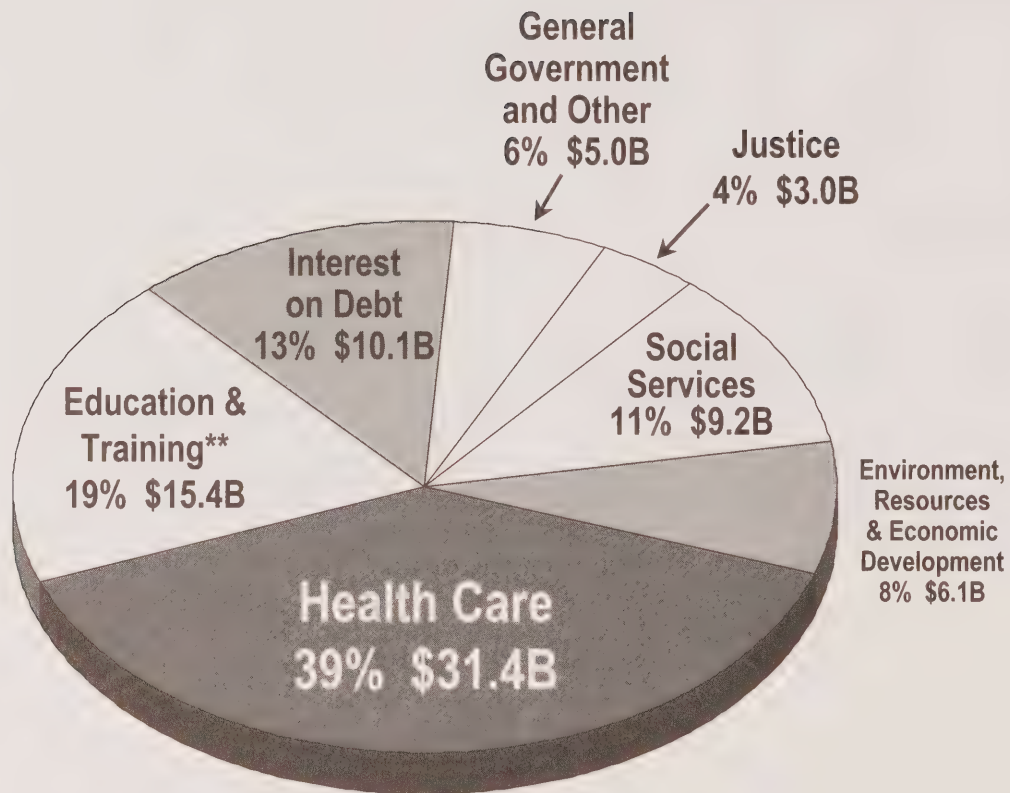
2004-05*



* As at September 30.

Note: Numbers may not add due to rounding.

Composition of Total Expense 2004-05*

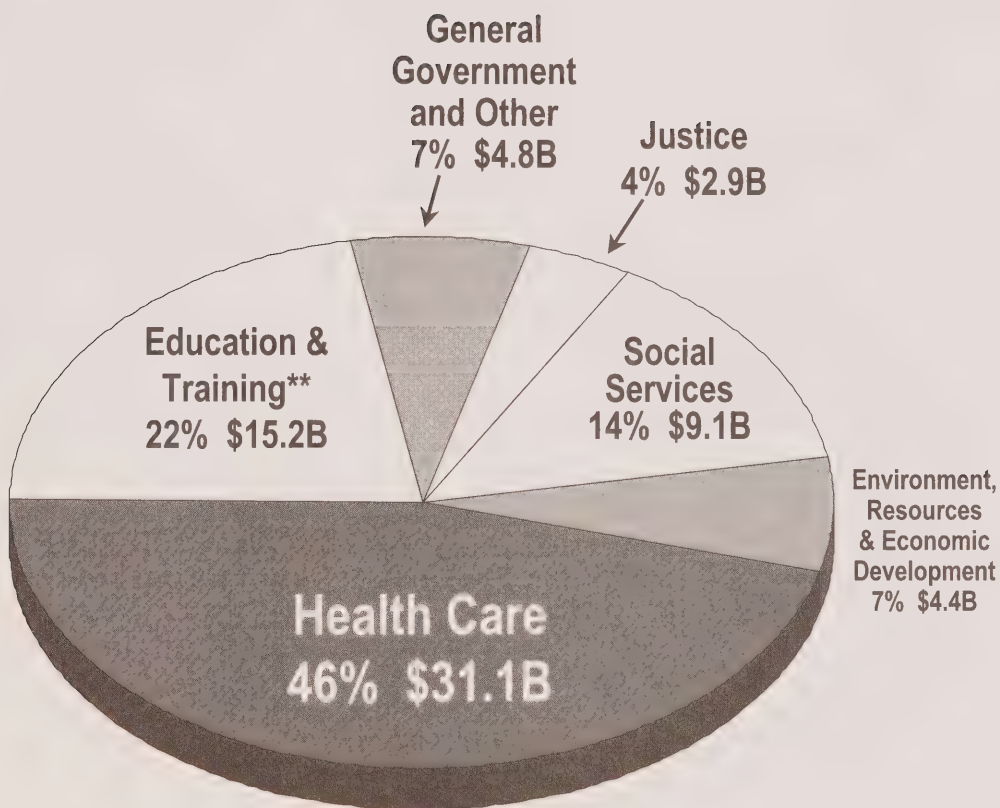


* As at September 30.

** Includes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Composition of Program Expense 2004-05*

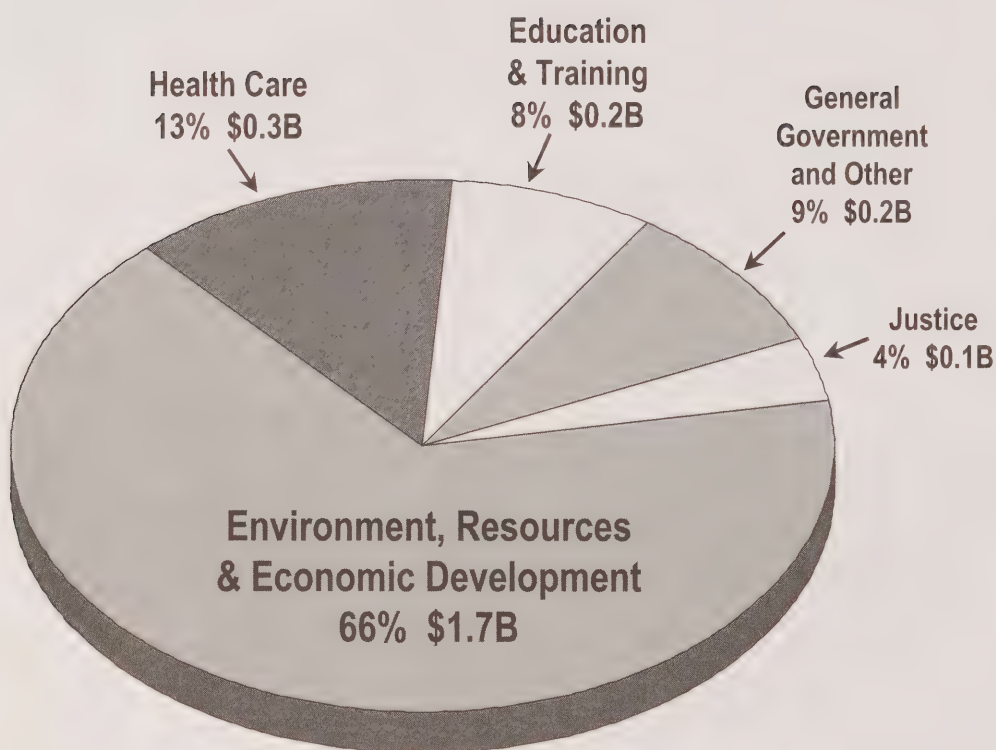


* As at September 30.

** Includes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Composition of Capital Expense 2004-05*



* As at September 30.

Note: Numbers may not add due to rounding.

ANNEX III

Borrowing and Debt Management

Borrowing and Debt Management

Cost-effective borrowing and debt management activities minimize debt interest costs, freeing up resources for essential programs such as health care and education. The Province employs a variety of financing approaches in domestic and international capital markets to fulfil its borrowing requirement.

Consolidated Provincial Borrowing Program

(\$ Billions)

	2004-05		
	Budget Plan	Current Outlook	Change
Deficit	2.2	2.2	(0.1)*
Adjustments for:			
Non-Cash Items Included in Deficit	3.2	3.2	-
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	-
Acquisitions of Major Tangible Capital Assets	1.6	1.6	-
Debt Maturities	16.1	16.0	-.**
Debt Redemptions	1.0	1.5	0.5
Canada Pension Plan Borrowing	(1.1)	(1.0)	0.1
Increase/(Decrease) in Cash and Cash Equivalents	-	(0.8)	(0.8)
Decrease/(Increase) in Short-Term Borrowing	0.2	0.1	(0.1)
Other Uses/(Sources) of Cash	1.4	1.4	0.1
Total Long-Term Public Borrowing Requirement	23.8	23.4	(0.3)

Note: Numbers may not add due to rounding.

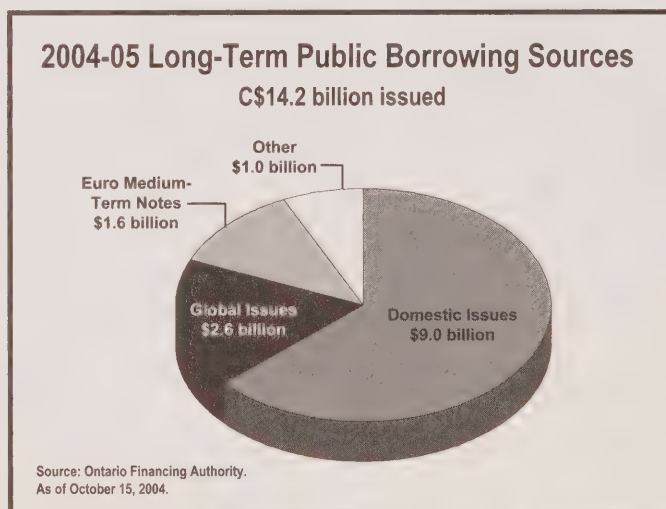
* As at September 30, a deficit of \$2,168 million is projected in 2004-05, an in-year improvement of \$71 million from the deficit projected in the 2004 Budget.

** Debt maturities decreased from \$16,087 million projected in the 2004 Budget to \$16,048 million as a result of investors not exercising calls on certain bonds.

Borrowing Program Status*	Completed	Remaining	Total
(\$ Billions)			
Province	11.8	7.4	19.2
Ontario Electricity Financial Corporation (OEFC)	2.4	1.8	4.2
Total	14.2	9.2	23.4

*As of October 15, 2004.

- The consolidated Total Long-Term Public Borrowing Requirement for the Province and OEFC in 2004-05 is projected at approximately \$23.4 billion, down from \$23.8 billion in the Budget Plan. This amount includes \$17.5 billion of Debt Maturities and Debt Redemptions and \$2.2 billion from the Deficit.
- The Province was able to reduce its Total Long-Term Public Borrowing Requirement in the second quarter. The actual deficit in 2003-04, at \$5.5 billion, was \$0.7 billion lower than the \$6.2 billion estimate in the Budget Plan. This decline allowed for a reduction in Cash and Cash Equivalents of \$0.8 billion, partly offset by \$0.5 billion in higher Debt Redemptions from the Ontario Savings Bond program.
- The Ontario Financing Authority (OFA) completed \$11.9 billion of the Province's Total Long-Term Public Borrowing Requirement during the first half of the fiscal year. As of October 15, 2004, an additional \$2.3 billion was borrowed in the long-term markets, for a total of \$14.2 billion. Over 60 per cent of the Province's long-term program has been completed.
- The domestic market has been the main source of funding in 2004-05, providing a total of \$9.0 billion through a number of instruments, including:
 - Syndicated issues;
 - Medium-Term Notes;
 - Floating Rate Notes; and
 - Ontario Savings Bonds.
- While the majority of the borrowing has been completed in the domestic market, the Province has successfully issued in U.S. and Australian dollars, as well as Sterling, Swiss francs and Canadian dollars issued through European Medium-Term Notes.
- To date, the Province has borrowed \$4.2 billion, or almost 30 per cent of its long-term borrowing program in foreign markets in 2004-05, compared to 25 per cent in 2003-04.



Medium-Term Borrowing Outlook

Consolidated Provincial Borrowing Program			
(\$ Billions)	2005-06	2006-07	2007-08
Deficit/(Surplus)	2.1	1.5	0.0
Estimated Adjustments for Non-Cash Items Included in Deficit	1.2	1.1	1.1
Acquisitions of Major Tangible Capital Assets	1.7	1.9	1.7
Debt Maturities			
Currently Outstanding	18.9	11.8	11.0
Incremental Impact of Future Refinancing	<u>0.0</u>	<u>2.1</u>	<u>4.3</u>
Subtotal	18.9	13.9	15.3
Debt Redemptions	1.0	1.0	1.0
Canada Pension Plan Borrowing	(1.2)	(0.4)	(0.4)
Decrease/(Increase) in Short-Term Borrowing	0.0	0.0	0.0
Other Uses/(Sources) of Funds	0.2	0.0	0.1
Estimated Long-Term Public Borrowing Requirements	23.9	19.0	18.8

- Refinancing maturing debt remains the primary component of the 2005-08 Estimated Long-Term Public Borrowing Requirements. Debt Maturities for the Province and OEFC are projected at \$18.9 billion in 2005-06, \$13.9 billion in 2006-07 and \$15.3 billion in 2007-08.
- In managing these Debt Maturities, the OFA will maintain a flexible financing approach and monitor domestic and international bond markets continuously, seeking out the most cost-effective borrowing opportunities.
- The OFA will also continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Management

- The OFA adheres to prudent risk management policies, using financial instruments such as options and swaps to hedge the Province's exposure to market risks such as foreign exchange and interest rate risks.
- The OFA also manages the Province's credit risk exposures arising from capital market activities by limiting market transactions to highly rated counterparties and maintaining credit exposures within approved policy limits.
- The Province limits itself to a maximum foreign exchange exposure of five per cent of debt issued for provincial purposes. As of September 30, 2004, foreign exchange exposure was 0.9 per cent of debt, dropping from 1.2 per cent on March 31, 2004 due to a combination of hedging of exposed debt and the continuing appreciation of the Canadian dollar.
- The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for provincial purposes. Interest rate reset exposure is the combination of net floating rate exposure and all fixed rate debt maturing within the next 12 months. As of September 30, 2004, interest rate reset exposure was 11.7 per cent of debt, compared to 11.4 per cent as of March 31, 2004.
- As of September 30, 2004, OEFC had zero foreign exchange exposure compared to its foreign exchange exposure limit of five per cent of total debt. Floating rate exposure was 12.5 per cent of outstanding debt as of September 30, 2004, compared to 8.0 per cent as of March 31, 2004—both levels within OEFC's limit of 20 per cent.

ANNEX IV

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(Note: Data in the tables may not add to totals due to rounding.)

Table 1 **Ontario, Gross Domestic Product, 1990-2003**

	(\$ Billions)						
	1990	1991	1992	1993	1994	1995	1996
Real GDP (chained \$1997)	316.9	304.5	307.2	310.2	328.5	340.1	343.8
Consumption	176.3	172.9	175.3	177.7	183.1	186.6	190.9
Government	69.1	72.3	72.6	72.1	72.9	73.3	70.6
Residential Construction	19.4	16.3	17.1	15.6	15.9	13.7	15.0
Non-residential Construction	13.1	12.5	10.9	8.8	7.8	7.5	9.2
Machinery and Equipment	19.5	18.0	18.5	17.7	20.2	22.3	23.7
Exports	164.3	159.4	165.5	179.4	198.1	213.8	225.6
Imports	143.2	142.2	149.8	158.7	169.4	180.5	189.4
Nominal Gross Domestic Product	282.8	283.1	286.5	293.4	311.1	329.3	338.2

Table 1 (continued) **(\$ Billions)**

	1997	1998	1999	2000	2001	2002	2003
Real GDP (chained \$1997)	359.4	376.7	405.0	428.1	434.9	451.1	458.1
Consumption	200.1	207.1	216.6	226.9	232.2	240.5	247.8
Government	70.5	72.0	75.1	78.2	82.0	85.0	89.8
Residential Construction	17.2	16.8	18.8	20.2	22.1	24.2	25.4
Non-residential Construction	10.0	10.2	11.3	10.2	9.8	9.7	9.3
Machinery and Equipment	29.3	31.3	34.2	36.1	35.2	33.8	36.3
Exports	242.6	260.4	289.8	312.0	302.9	313.1	309.1
Imports	213.3	223.3	241.9	261.2	247.0	256.3	263.6
Nominal Gross Domestic Product	359.4	377.9	409.0	441.2	453.4	479.1	494.2

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 2 **Ontario, Growth in Gross Domestic Product, 1990-2003**
(Per Cent Change)

	1990	1991	1992	1993	1994	1995	1996
Real GDP (chained \$1997)	-1.7	-3.9	0.9	1.0	5.9	3.5	1.1
Consumption	0.3	-1.9	1.4	1.3	3.1	1.9	2.3
Government	5.3	4.5	0.4	-0.7	1.1	0.7	-3.7
Residential Construction	-20.2	-15.9	4.5	-8.7	2.0	-14.0	9.6
Non-residential Construction	-9.0	-4.9	-12.9	-18.7	-12.2	-2.7	21.5
Machinery and Equipment	-4.8	-7.2	2.4	-4.4	14.6	9.9	6.7
Exports	0.0	-3.0	3.9	8.4	10.4	7.9	5.6
Imports	-1.8	-0.7	5.3	5.9	6.8	6.6	4.9
Nominal Gross Domestic Product	1.5	0.1	1.2	2.4	6.0	5.9	2.7

Table 2 (continued) (Per Cent Change)

	1997	1998	1999	2000	2001	2002	2003
Real GDP (chained \$1997)	4.5	4.8	7.5	5.7	1.6	3.7	1.6
Consumption	4.8	3.5	4.6	4.7	2.3	3.6	3.0
Government	-0.1	2.0	4.4	4.1	4.9	3.7	5.6
Residential Construction	14.5	-1.8	11.6	7.3	9.6	9.3	4.9
Non-residential Construction	9.2	1.6	11.4	-10.0	-3.5	-1.8	-4.0
Machinery and Equipment	23.3	6.8	9.4	5.7	-2.5	-4.2	7.6
Exports	7.5	7.3	11.3	7.6	-2.9	3.4	-1.3
Imports	12.6	4.7	8.4	8.0	-5.4	3.8	2.8
Nominal Gross Domestic Product	6.3	5.2	8.2	7.9	2.8	5.7	3.2

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 3**Ontario, Selected Economic Indicators, 1990-2003**

	1990	1991	1992	1993	1994	1995	1996
Retail Sales (\$ Billions)	NA	69.6	71.5	74.5	80.0	83.3	83.8
Housing Starts - Units (000s)	62.6	52.8	55.8	45.1	46.6	35.8	43.1
Personal Income (\$ Billions)	241.7	247.7	253.8	256.1	260.7	271.4	276.3
Pre-tax Corporate Profits (\$ Billions)	19.8	14.6	14.5	17.9	27.9	33.1	34.2
Consumer Price Index (1992 = 100)	94.6	99.0	100.0	101.8	101.8	104.3	105.9
Labour Force (000s)	5,533	5,544	5,542	5,581	5,574	5,620	5,695
Employment (000s)	5,191	5,016	4,949	4,974	5,039	5,131	5,181
Unemployment Rate (%)	6.2	9.5	10.7	10.9	9.6	8.7	9.0

Table 3 (continued)	1997	1998	1999	2000	2001	2002	2003
Retail Sales (\$ Billions)	90.9	97.5	104.6	111.5	114.3	121.0	125.1
Housing Starts - Units (000s)	54.1	53.8	67.2	71.5	73.3	83.6	85.2
Personal Income (\$ Billions)	289.5	304.7	321.7	347.6	360.2	370.3	379.7
Pre-tax Corporate Profits (\$ Billions)	37.5	39.5	49.7	55.0	48.2	58.5	59.4
Consumer Price Index (1992 = 100)	107.9	108.9	111.0	114.2	117.7	120.1	123.3
Labour Force (000s)	5,801	5,914	6,071	6,228	6,364	6,532	6,694
Employment (000s)	5,313	5,490	5,688	5,872	5,963	6,068	6,229
Unemployment Rate (%)	8.4	7.2	6.3	5.7	6.3	7.1	7.0

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

Table 4 **Ontario, Selected Economic Indicators, Annual Change, 1990-2003**

	(Per Cent Change)						
	1990	1991	1992	1993	1994	1995	1996
Retail Sales	NA	NA	2.7	4.2	7.5	4.0	0.7
Housing Starts	-32.9	-15.7	5.6	-19.1	3.3	-23.2	20.2
Personal Income	5.5	2.5	2.5	0.9	1.8	4.1	1.8
Pre-tax Corporate Profits	-27.8	-26.0	-0.8	23.1	55.8	18.7	3.3
Consumer Price Index	4.9	4.7	1.0	1.8	0.0	2.5	1.5
Labour Force	1.2	0.2	0.0	0.7	-0.1	0.8	1.3
Employment	0.0	-3.4	-1.3	0.5	1.3	1.8	1.0

Table 4 (continued) (Per Cent Change)

	1997	1998	1999	2000	2001	2002	2003
Retail Sales	8.5	7.2	7.3	6.6	2.5	5.9	3.4
Housing Starts	25.6	-0.4	24.9	6.4	2.5	14.1	1.9
Personal Income	4.8	5.2	5.6	8.0	3.6	2.8	2.5
Pre-tax Corporate Profits	9.9	5.2	25.9	10.5	-12.4	21.5	1.5
Consumer Price Index	1.9	0.9	1.9	2.9	3.1	2.0	2.7
Labour Force	1.9	1.9	2.6	2.6	2.2	2.6	2.5
Employment	2.6	3.3	3.6	3.2	1.5	1.8	2.6

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

Table 5

Business Cycles in Ontario

Recessions		Recoveries and Expansions		
Recession Quarters	Length (Quarters)	Peak-to-trough decline in real GDP	Expansion Quarters	Length (Quarters)
1954:1 - 54:2	2	-1.5%	1954:3 - 57:3	13
1957:4 - 58:2	3	-1.7%	1958:3 - 74:3	65
1974:4 - 75:1	2	-0.6%	1975:2 - 79:3	18
1979:4 - 80:3	4	-2.2%	1980:4 - 81:4	5
1982:1 - 82:3	3	-5.2%	1982:4 - 89:4	29
1990:1 - 91:1	5	-7.7%	1991:2 - 92:1	4
1992:2 - 92:3	2	-0.9%	1992:4 - 2003:1	41
2003:2 - 2003:3	2	-1.0%	2003:4 -	
Average	3	-2.6%	Average	25
Weighted by length of recession		-3.3%		

Source: Ontario Ministry of Finance.

Table 6 **Ontario, Real Gross Domestic Product by Industry at Basic Prices, 2000-2003**

	(\$1997 Chained Millions)			
	2000	2001	2002	2003
Goods Producing Industries	127,402	123,773	128,052	128,165
Primary	7,844	7,585	7,784	7,790
Utilities	9,931	9,901	10,235	9,775
Construction	18,403	19,991	20,608	21,280
Manufacturing ¹	91,145	85,986	89,159	88,986
Services Producing Industries	268,431	277,499	288,543	294,353
Wholesale Trade	26,067	26,408	28,452	29,912
Retail Trade	19,885	20,269	21,172	21,506
Transportation and Warehousing	16,188	16,018	16,354	16,339
Information and Cultural (incl. Telecommunications)	16,029	17,212	18,253	18,779
Finance, Insurance, Real Estate, Rental and Leasing	83,265	87,044	90,956	92,224
Professional and Administrative Services	28,841	30,188	31,250	32,300
Education	17,148	17,340	17,596	17,357
Health Care and Social Services	21,031	21,698	22,390	23,268
Arts, Entertainment and Recreation	3,549	3,624	3,771	3,900
Accommodation and Food	8,750	8,916	8,957	8,615
Other Services	8,875	9,223	9,484	9,589
Public Administration	19,105	19,857	20,228	20,996
Total Production	396,133	401,414	416,771	422,813

Note:

1. See Table 8 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 7 Ontario, Growth in Real Gross Domestic Product by Industry at Basic Prices, 2000-2003

	(Per Cent Change)			
	2000	2001	2002	2003
Goods Producing Industries	7.4	-2.8	3.5	0.1
Primary Industries	0.6	-3.3	2.6	0.1
Utilities	0.4	-0.3	3.4	-4.5
Construction	2.5	8.6	3.1	3.3
Manufacturing ¹	10.1	-5.7	3.7	-0.2
Services Producing Industries	5.3	3.4	4.0	2.0
Wholesale Trade	7.1	1.3	7.7	5.1
Retail Trade	6.8	1.9	4.5	1.6
Transportation and Warehousing	3.9	-1.0	2.1	-0.1
Information and Cultural (incl. Telecommunications)	10.2	7.4	6.0	2.9
Finance, Insurance, Real Estate, Rental and Leasing	6.2	4.5	4.5	1.4
Professional and Administrative Services	7.8	4.7	3.5	3.4
Education	0.3	1.1	1.5	-1.4
Health Care and Social Services	1.6	3.2	3.2	3.9
Arts, Entertainment and Recreation	5.4	2.1	4.1	3.4
Accommodation and Food	1.8	1.9	0.5	-3.8
Other Services	4.4	3.9	2.8	1.1
Public Administration	2.4	3.9	1.9	3.8
Total Production	6.0	1.3	3.8	1.4

Note:

1. See Table 9 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 8

**Ontario, Real Gross Domestic Product at Basic Prices in
Selected Manufacturing Industries, 2000-2003**

	(\$1997 Chained Millions)			
	2000	2001	2002	2003
Manufacturing	91,145	85,986	89,159	88,986
Food, Beverage and Tobacco Products	9,342	9,914	9,978	9,697
Textile, Clothing and Leather Products	2,222	2,043	2,143	1,923
Wood Products and Furniture	4,850	4,702	4,818	4,782
Paper Products and Printing	6,342	6,147	6,151	6,155
Chemical and Petroleum Products	7,759	7,717	8,411	8,765
Plastic and Rubber Products	5,919	6,113	6,778	6,791
Primary Metal and Fabricated Metal Products	12,739	12,371	13,119	12,956
Machinery	6,564	5,991	6,210	6,001
Electrical and Electronic Products	11,529	8,779	8,150	8,396
Transportation Equipment	20,523	18,985	20,153	20,048
Non-metallic Mineral Products and Other Manufacturing	3,855	3,673	3,720	3,933

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 9 **Ontario, Growth in Real Gross Domestic Product at Basic Prices in Selected Manufacturing Industries, 2000-2003**

	(Per Cent Change)			
	2000	2001	2002	2003
Manufacturing	10.1	-5.7	3.7	-0.2
Food, Beverage and Tobacco Products	-0.1	6.1	0.6	-2.8
Textile, Clothing and Leather Products	18.6	-8.1	4.9	-10.3
Wood Products and Furniture	21.0	-3.0	2.5	-0.7
Paper Products and Printing	15.2	-3.1	0.1	0.1
Chemical and Petroleum Products	6.7	-0.5	9.0	4.2
Plastic and Rubber Products	16.6	3.3	10.9	0.2
Primary Metal and Fabricated Metal Products	14.4	-2.9	6.0	-1.2
Machinery	18.1	-8.7	3.7	-3.4
Electrical and Electronic Products	31.1	-23.9	-7.2	3.0
Transportation Equipment	-1.5	-7.5	6.2	-0.5
Non-metallic Mineral Products and Other Manufacturing	13.1	-4.7	1.3	5.7

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 10	Ontario, Housing Market Indicators, 2000-2003			
	2000	2001	2002	2003
New Housing Market				
Residential Construction, Current \$ Millions	21,854	24,718	28,305	31,052
	10.7	13.1	14.5	9.7
Real Residential Construction (\$1997 Millions)	20,183	22,130	24,187	25,368
	7.3	9.6	9.3	4.9
Housing Starts (Units)	71,521	73,282	83,597	85,180
	6.4	2.5	14.1	1.9
Of which: Single-detached, urban areas (Units)	35,555	34,861	44,980	40,849
	5.5	-2.0	29.0	-9.2
Multiple, urban areas (Units)	31,868	35,401	34,635	40,082
	9.0	11.1	-2.2	15.7
New Housing Price Index (1997 = 100)	107.4	110.8	114.9	120.0
	3.1	3.1	3.7	4.4
Resale Market				
Home Resales (Units)	147,158	162,318	178,058	184,457
	-1.0	10.3	9.7	3.6
Average Resale Price (\$)	183,841	193,357	210,901	226,824
	5.6	5.2	9.1	7.5

Note: Per cent change is shown on second line.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ontario Ministry of Finance.

Table 11 **Selected Financial Indicators, 1990-2003**

	(Per Cent)						
	1990	1991	1992	1993	1994	1995	1996
Interest Rates							
Bank Rate	13.1	9.0	6.8	5.1	5.8	7.1	4.5
Prime Rate	14.1	9.9	7.5	5.9	6.9	8.6	6.1
10-Year Government Bonds	10.8	9.4	8.1	7.2	8.4	8.1	7.2
Three-month T-Bills	12.8	8.7	6.6	4.8	5.5	6.9	4.2
Mortgage Rates							
5-Year Rate	13.4	11.1	9.5	8.8	9.5	9.2	7.9
1-Year Rate	13.4	10.1	7.9	6.9	7.8	8.4	6.2
Canadian Household Debt Burden*							
Consumer	21.8	21.5	21.3	21.3	22.7	23.5	24.6
Mortgage	53.3	55.8	59.2	62.2	65.3	65.4	67.1
Total	75.1	77.3	80.5	83.5	88.0	88.9	91.8

Table 11 (continued) **(Per Cent)**

	1997	1998	1999	2000	2001	2002	2003
Interest Rates							
Bank Rate	3.5	5.1	4.9	5.8	4.3	2.7	3.2
Prime Rate	5.0	6.6	6.4	7.3	5.8	4.2	4.7
10-Year Government Bonds	6.1	5.3	5.6	5.9	5.5	5.3	4.8
Three-month T-Bills	3.3	4.7	4.7	5.5	3.8	2.6	2.9
Mortgage Rates							
5-Year Rate	7.1	6.9	7.6	8.3	7.4	7.0	6.4
1-Year Rate	5.5	6.5	6.8	7.9	6.1	5.2	4.8
Canadian Household Debt Burden*							
Consumer	26.2	27.7	28.5	29.9	30.5	31.2	33.0
Mortgage	68.5	69.0	68.6	67.0	66.8	69.1	72.5
Total	94.7	96.6	97.1	96.9	97.3	100.3	105.4

* Household debt as a share of personal disposable income.

Note: All data are annual averages.

Sources: Statistics Canada and Bank of Canada.

Table 12 **Ontario and the G-7, Real Gross Domestic Product Growth, 1990-2003**

	(Per Cent)						
	1990	1991	1992	1993	1994	1995	1996
Ontario	-1.7	-3.9	0.9	1.0	5.9	3.5	1.1
Canada	0.2	-2.1	0.9	2.3	4.8	2.8	1.6
France	2.6	1.0	1.3	-1.0	1.9	1.8	1.0
Germany	5.7	5.1	1.8	-1.1	2.4	1.8	0.8
Italy	1.9	1.4	0.7	-0.9	2.3	3.0	1.0
Japan	5.2	3.4	1.0	0.2	1.1	1.9	3.4
United Kingdom	0.8	-1.4	0.2	2.3	4.4	2.8	2.7
United States	1.9	-0.2	3.3	2.7	4.0	2.5	3.7

Table 12 (continued) **(Per Cent)**

	1997	1998	1999	2000	2001	2002	2003
Ontario	4.5	4.8	7.5	5.7	1.6	3.7	1.6
Canada	4.2	4.1	5.5	5.2	1.8	3.4	2.0
France	1.9	3.6	3.2	4.2	2.1	1.1	0.5
Germany	1.5	1.7	1.9	3.1	1.0	0.2	-0.1
Italy	2.0	1.7	1.7	3.2	1.7	0.4	0.4
Japan	1.9	-1.1	0.1	2.8	0.4	-0.3	2.7
United Kingdom	3.3	3.1	2.8	3.8	2.1	1.6	2.2
United States	4.5	4.2	4.5	3.7	0.8	1.9	3.0

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. These numbers are working-day adjusted and hence may differ from the basis used for official projections.

Sources: OECD, U.S. Bureau of Economic Analysis and Statistics Canada.

Table 13 **Ontario and the G-7, Employment Growth, 1990-2003**

	(Per Cent)						
	1990	1991	1992	1993	1994	1995	1996
Ontario	0.0	-3.4	-1.3	0.5	1.3	1.8	1.0
Canada	0.8	-1.8	-0.7	0.8	2.0	1.9	0.8
France	1.1	0.2	-0.6	-1.2	0.1	0.9	0.4
Germany	3.0	1.7	-1.9	-1.8	-0.2	0.1	-0.3
Italy	1.4	1.4	-1.1	-4.1	-1.6	-0.6	0.5
Japan	2.0	1.9	1.1	0.2	0.1	0.1	0.4
United Kingdom	0.4	-3.2	-2.8	-0.7	1.0	1.1	0.9
United States	1.2	-0.9	0.7	1.5	2.3	1.5	1.5

Table 13 (continued) **(Per Cent)**

	1997	1998	1999	2000	2001	2002	2003
Ontario	2.6	3.3	3.6	3.2	1.5	1.8	2.6
Canada	2.3	2.7	2.8	2.6	1.1	2.2	2.2
France	0.4	1.5	2.0	2.7	1.7	0.7	0.0
Germany	-0.2	1.1	1.2	2.0	0.3	-0.5	-1.1
Italy	0.4	1.1	1.3	1.9	2.1	1.5	1.0
Japan	1.1	-0.7	-0.8	-0.2	-0.6	-1.2	-0.2
United Kingdom	1.8	1.0	1.3	1.1	0.8	0.7	0.9
United States	2.3	1.5	1.5	2.5	0.0	-0.3	0.9

Sources: IMF, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 14 **Ontario and the G-7, Unemployment Rates, 1990-2003**

(Per Cent)

	1990	1991	1992	1993	1994	1995	1996
Ontario	6.2	9.5	10.7	10.9	9.6	8.7	9.0
Canada	8.1	10.3	11.2	11.4	10.4	9.4	9.6
France	8.8	9.4	10.3	11.6	12.0	11.4	12.0
Germany	4.5	5.3	6.2	7.5	8.0	7.7	8.4
Italy	9.1	8.6	8.8	10.2	11.2	11.7	11.7
Japan	2.1	2.1	2.2	2.5	2.9	3.2	3.4
United Kingdom	6.0	8.4	10.3	10.7	9.8	8.8	8.2
United States	5.6	6.8	7.5	6.9	6.1	5.6	5.4

Table 14 (continued)

(Per Cent)

	1997	1998	1999	2000	2001	2002	2003
Ontario	8.4	7.2	6.3	5.7	6.3	7.1	7.0
Canada	9.1	8.3	7.6	6.8	7.2	7.7	7.6
France	12.1	11.5	10.7	9.4	8.7	9.0	9.7
Germany	9.2	8.7	8.0	7.3	7.4	8.1	8.7
Italy	11.8	11.9	11.5	10.7	9.6	9.1	8.8
Japan	3.4	4.1	4.7	4.7	5.0	5.4	5.3
United Kingdom	7.1	6.3	6.1	5.5	5.1	5.2	5.0
United States	4.9	4.5	4.2	4.0	4.7	5.8	6.0

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature.

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 15 **Ontario and the G-7, CPI Inflation Rates, 1990-2003**

	(Per Cent)						
	1990	1991	1992	1993	1994	1995	1996
Ontario	4.9	4.7	1.0	1.8	0.0	2.5	1.5
Canada	4.8	5.6	1.5	1.8	0.2	2.2	1.6
France	3.2	3.4	2.5	2.2	1.7	1.8	2.1
Germany	2.7	4.1	5.1	4.4	2.7	1.7	1.2
Italy	6.5	6.2	5.0	4.5	4.2	5.4	4.0
Japan	3.1	3.2	1.7	1.3	0.7	-0.1	0.1
United Kingdom	13.4	7.5	4.2	2.5	2.0	2.7	2.5
United States	5.4	4.2	3.0	3.0	2.6	2.8	3.0

Table 15 (continued) **(Per Cent)**

	1997	1998	1999	2000	2001	2002	2003
Ontario	1.9	0.9	1.9	2.9	3.1	2.0	2.7
Canada	1.6	0.9	1.7	2.7	2.6	2.2	2.8
France	1.3	0.7	0.6	1.8	1.8	1.9	2.2
Germany	1.5	0.6	0.6	1.4	1.9	1.3	1.0
Italy	1.9	2.0	1.7	2.6	2.3	2.6	2.8
Japan	1.7	0.7	-0.3	-0.7	-0.7	-0.9	-0.3
United Kingdom	1.8	1.6	1.3	0.8	1.2	1.3	1.4
United States	2.3	1.6	2.2	3.4	2.8	1.6	2.3

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 16**G-7, Exchange Rates, 1990-2003**

(Foreign Currency per Canadian Dollar)

	1990	1991	1992	1993	1994	1995	1996
Euro*	-	-	-	-	-	-	-
France	4.667	4.925	4.380	4.390	4.066	3.637	3.752
Germany	1.385	1.449	1.292	1.282	1.188	1.044	1.104
Italy	1026.9	1082.8	1019.6	1219.8	1180.7	1186.9	1131.6
Japan	124.1	117.6	104.8	86.2	74.8	68.5	79.8
United Kingdom	0.482	0.495	0.471	0.517	0.478	0.462	0.470
United States	0.857	0.873	0.827	0.775	0.732	0.729	0.733

Table 16 (continued)

(Foreign Currency per Canadian Dollar)

	1997	1998	1999	2000	2001	2002	2003
Euro*	-	-	0.631	0.730	0.721	0.674	0.632
France	4.211	3.968	-	-	-	-	-
Germany	1.251	1.183	-	-	-	-	-
Italy	1228.5	1168.2	-	-	-	-	-
Japan	87.3	87.8	76.3	72.6	78.4	79.7	82.7
United Kingdom	0.441	0.407	0.416	0.444	0.448	0.424	0.437
United States	0.722	0.674	0.673	0.673	0.646	0.637	0.714

* Introduced January 4, 1999.

Note: All data are annual averages.

Source: Bank of Canada.

Table 17**Ontario, International Merchandise Exports¹ by Major Commodity², 2003**

	Value (\$ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	71,894	42.9
Machinery and Mechanical Appliances	19,081	11.4
Electrical Machinery and Equipment	7,936	4.7
Plastics and Plastic Articles	6,981	4.2
Non-ferrous Metals and Allied Products	6,001	3.6
Pulp; Paper and Allied Products	5,620	3.4
Prepared Foodstuffs, Beverages and Tobacco,	4,800	2.9
Furniture and Fixtures, Signs, Prefabricated Buildings	4,541	2.7
Other Chemical Products	3,520	2.1
Precious Metals, Stones and Coins	3,241	1.9
Wood and Wood Products	2,886	1.7
Iron and Steel	2,829	1.7
Mineral Products	2,819	1.7
Articles of Iron and Steel	2,810	1.7
Pharmaceutical Products	2,195	1.3
Scientific, Professional and Photo Equipment, Clocks	2,080	1.2
Vegetable Products; Fats and Oils	1,748	1.0
Rubber and Rubber Articles	1,721	1.0
Live Animals; Animal Products	1,493	0.9
Textiles and Textile Articles	1,357	0.8
Articles of Stone, Cement, Ceramic and Glass	1,335	0.8
Organic Chemicals	1,253	0.7
Inorganic Chemicals; Chemical Elements and Compounds	1,248	0.7
Aircraft, Spacecraft and Parts	1,027	0.6
Printed Matter	879	0.5
Apparel and Clothing Accessories	571	0.3
Railway, Rolling Stock and Parts	476	0.3
Hides, Leather, Travel Goods and Furs	357	0.2
Toys, Games and Sports Equipment	346	0.2
Other Textile and Clothing Articles	202	0.1
Miscellaneous Articles; Works of Art	195	0.1
Ships, Boats and Floating Structures	74	0.0
Headgear, Umbrellas, Artificial Flowers	30	0.0
Footwear	29	0.0
Other Commodities ³	4,134	2.5
Total Exports	167,707	100.0

Notes:

1. Domestic exports exclude re-exports.
2. Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.
3. Other Commodities includes special transactions.

Source: Industry Canada.

Table 18

Ontario, International Merchandise Imports by Major Commodity¹, 2003

	Value (\$ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	49,256	23.5
Machinery and Mechanical Appliances	38,833	18.5
Electrical Machinery and Equipment	22,952	10.9
Plastics and Plastic Articles	8,762	4.2
Other Chemical Products	7,945	3.8
Scientific, Professional and Photo Equipment, Clocks	7,846	3.7
Non-ferrous Metals and Allied Products	6,807	3.2
Prepared Foodstuffs, Beverages and Tobacco	5,739	2.7
Pharmaceutical Products	5,218	2.5
Pulp; Paper and Allied Products	4,378	2.1
Vegetable Products; Fats and Oils	4,262	2.0
Articles of Iron and Steel	4,138	2.0
Furniture and Fixtures, Signs, Prefabricated Buildings	3,688	1.8
Mineral Products	3,604	1.7
Rubber and Rubber Articles	3,258	1.6
Iron and Steel	3,207	1.5
Organic Chemicals	3,167	1.5
Articles of Stone, Cement, Ceramic and Glass	2,883	1.4
Textiles and Textile Articles	2,587	1.2
Printed Matter	2,450	1.2
Apparel and Clothing Accessories	2,355	1.1
Toys, Games and Sports Equipment	2,097	1.0
Precious Metals, Stones and Coins	1,704	0.8
Live Animals; Animal Products	1,641	0.8
Wood and Wood Products	1,451	0.7
Aircraft, Spacecraft and Parts	1,327	0.6
Inorganic Chemicals; Chemical Elements and Compounds	933	0.4
Miscellaneous Articles; Works of Art	766	0.4
Hides, Leather, Travel Goods and Furs	748	0.4
Railway, Rolling Stock and Parts	743	0.4
Footwear	689	0.3
Other Textile and Clothing Articles	544	0.3
Ships, Boats and Floating Structures	232	0.1
Headgear, Umbrellas, Artificial Flowers	160	0.1
Other Commodities ²	3,583	1.7
Total Imports	209,952	100.0

Notes:

1. Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.
2. Other Commodities includes trans-shipments from one province to another through a foreign jurisdiction and special transactions.

Source: Industry Canada.

Table 19

Ontario, International Merchandise Trade by Major Region, 2003

	Exports (\$ Millions)	Per Cent of Total	Imports (\$ Millions)	Per Cent of Total
United States	153,455	91.5	150,016	71.5
Western Europe	7,034	4.2	16,655	7.9
European Union	6,092	3.6	15,501	7.4
Other Western Europe	942	0.6	1,155	0.6
Eastern Europe	389	0.2	789	0.4
Asia	3,282	2.0	25,581	12.2
Oceania (Pacific)	963	0.6	700	0.3
Pacific Rim	4,078	2.4	25,177	12.0
Caribbean	268	0.2	179	0.1
Latin America	1,403	0.8	12,471	5.9
Mexico	855	0.5	10,017	4.8
Middle East	579	0.3	641	0.3
Africa	335	0.2	444	0.2
Re-imports (Canada)	0	0.0	2,475	1.2
Total	167,707	100.0	209,952	100.0

Note: Data are customs based and do not include re-exports.

Source: Industry Canada.

Table 20**Canada, International Merchandise Trade by Major Region, 2003**

	Exports (\$ Millions)	Per Cent of Total	Imports (\$ Millions)	Per Cent of Total
United States	303,563	85.7	203,550	60.7
Western Europe	19,627	5.5	44,646	13.3
European Union	18,133	5.1	38,854	11.6
Other Western Europe	1,494	0.4	5,792	1.7
Eastern Europe	1,073	0.3	2,252	0.7
Asia	19,355	5.5	51,941	15.5
Oceania (Pacific)	1,787	0.5	2,200	0.7
Pacific Rim	19,913	5.6	51,706	15.4
Caribbean	777	0.2	1,113	0.3
Latin America	4,578	1.3	17,930	5.3
Mexico	2,143	0.6	12,184	3.6
Middle East	1,684	0.5	3,413	1.0
Africa	1,601	0.5	4,376	1.3
Re-imports (Canada)	5	0.0	4,112	1.2
Total	354,050	100.0	335,533	100.0

Note: Data are customs based and do not include re-exports.

Source: Industry Canada.

Table 21 **Ontario, Selected Demographic Characteristics, 1986-2004** ¹

	Intercensal Estimates			Postcensal Estimates ²			
	1986	1991	1996	2001	2002	2003	2004
Total Population (000s)	9,438	10,428	11,083	11,898	12,102	12,257	12,393
Annual Average Growth							
Over Preceding Year Shown (%)	1.4	2.0	1.2	1.4	1.7	1.3	1.1
Median Age (Years)	31.9	33.3	35.0	36.7	37.0	37.4	37.7
Age Group Shares (%)							
0-4	6.8	7.0	6.8	6.0	5.8	5.6	5.4
5-14	13.4	13.1	13.5	13.5	13.4	13.2	13.0
15-24	17.1	14.5	13.2	13.4	13.4	13.5	13.5
25-44	32.1	34.2	32.9	31.5	31.3	30.9	30.6
45-64	19.8	19.6	21.3	23.2	23.6	24.2	24.7
65-74	6.5	7.0	7.3	7.0	6.9	6.9	6.9
75+	4.2	4.6	5.0	5.6	5.7	5.8	5.9
Total Fertility Rate ³	1.6	1.7	1.6	1.5	1.5	NA	NA
Life Expectancy (Years) ³							
Female	80.0	80.8	81.3	82.2	82.2	NA	NA
Male	73.7	75.0	75.9	77.5	77.7	NA	NA
Families (000s) ⁴	2,445	2,727	2,933	3,191	NA	NA	NA
Households (000s) ⁴	3,222	3,638	3,925	4,219	NA	NA	NA

Notes:

1. Population figures are for July 1 (census year).
 2. Estimates by Statistics Canada based on the 2001 Census adjusted for net Census undercoverage.
 3. Calendar-year data.
 4. Families and Households are Census data.
- Source: Statistics Canada.

Table 22 **Ontario, Components of Population Growth, 1994-95 to 2003-04¹**

	(Thousands)				
	1994-95	1995-96	1996-97	1997-98	1998-99
Population at Beginning of Period	10,818	10,950	11,083	11,228	11,367
Births	147	143	136	133	131
Deaths	78	78	80	80	80
Immigrants	120	116	119	106	92
Net Emigrants ³	26	25	27	26	24
Net Change in Non-permanent Residents	-17	-10	-3	-3	6
Interprovincial Arrivals	67	69	70	75	73
Interprovincial Departures	70	72	68	66	56
Population Growth During Period	132	133	145	139	139
Population at End of Period²	10,950	11,083	11,228	11,367	11,506
Population Growth (%)	1.2	1.2	1.3	1.2	1.2

Table 22 (continued) **(Thousands)**

	1999-00	2000-01	2001-02	2002-03	2003-04
Population at Beginning of Period	11,506	11,685	11,898	12,102	12,257
Births	131	128	129	129	128
Deaths	81	81	81	84	87
Immigrants	117	150	153	110	128
Net Emigrants ³	24	23	19	19	19
Net Change in Non-permanent Residents	16	21	17	18	-5
Interprovincial Arrivals	79	75	70	64	68
Interprovincial Departures	57	56	65	64	77
Population Growth During Period	179	212	204	155	136
Population at End of Period²	11,685	11,898	12,102	12,257	12,393
Population Growth (%)	1.6	1.8	1.7	1.3	1.1

Notes:

1. Data are from July 1 to June 30 (census year).
2. The sum of the components does not equal the total change in population due to residual deviation.
3. Net Emigrants = Emigrants plus temporarily abroad minus returning emigrants.

Source: Statistics Canada. Estimates based on the 2001 Census adjusted for net Census undercoverage.

Table 23**Ontario, Labour Force, 1990-2003**

	1990	1991	1992	1993	1994	1995	1996
Labour Force (000s)	5,533	5,544	5,542	5,581	5,574	5,620	5,695
Annual Labour Force Growth (%)	1.2	0.2	0.0	0.7	-0.1	0.8	1.3
Participation Rate (%)							
Male	78.0	76.4	75.1	74.4	73.5	72.9	72.6
Female	61.4	61.0	60.0	59.5	58.8	58.7	58.9
Share of Labour Force (%)							
Youth (15-24)	19.6	18.6	18.1	17.3	16.8	16.4	16.2
Older Workers (45+)	26.3	26.6	27.4	28.0	28.8	29.1	29.5

Table 23 (continued)

	1997	1998	1999	2000	2001	2002	2003
Labour Force (000s)	5,801	5,914	6,071	6,228	6,364	6,532	6,694
Annual Labour Force Growth (%)	1.9	1.9	2.6	2.6	2.2	2.6	2.5
Participation Rate (%)							
Male	72.8	72.6	73.2	73.4	73.5	74.1	74.5
Female	59.1	59.7	60.4	61.2	61.4	61.9	62.6
Share of Labour Force (%)							
Youth (15-24)	15.9	15.7	16.0	16.1	15.9	16.0	15.9
Older Workers (45+)	30.2	30.6	31.3	32.0	32.5	33.4	34.5

Source: Statistics Canada.

Table 24**Ontario, Employment, 1990-2003**

	1990	1991	1992	1993	1994	1995	1996
Total Employment (000s)	5,191	5,016	4,949	4,974	5,039	5,131	5,181
Male	2,851	2,717	2,661	2,688	2,729	2,777	2,798
Female	2,340	2,299	2,288	2,286	2,311	2,353	2,383
Annual Employment Growth (%)	0.0	-3.4	-1.3	0.5	1.3	1.8	1.0
Net Job Creation (000s)	-2	-176	-67	25	65	91	50
Private-sector Employment (000s)	3,542	3,337	3,237	3,209	3,274	3,395	3,459
Public-sector Employment (000s)	1,013	1,022	1,039	1,042	1,033	1,004	963
Self-employment (000s)	636	657	673	723	733	732	758
Manufacturing Employment (% of total)	19.2	18.0	17.3	16.5	16.6	17.1	17.4
Services Employment (% of total)	70.0	71.7	72.7	73.8	74.0	73.7	73.6
Part-time (% of total)	17.1	18.3	18.6	19.7	19.0	18.8	19.3
Average Hours Worked Per Week ¹	38.1	37.3	36.7	37.2	37.6	37.2	37.6

Table 24 (continued)

	1997	1998	1999	2000	2001	2002	2003
Total Employment (000s)	5,313	5,490	5,688	5,872	5,963	6,068	6,229
Male	2,879	2,952	3,058	3,146	3,184	3,237	3,315
Female	2,435	2,538	2,630	2,726	2,779	2,831	2,914
Annual Employment Growth (%)	2.6	3.3	3.6	3.2	1.5	1.8	2.6
Net Job Creation (000s)	133	177	198	184	91	105	161
Private-sector Employment (000s)	3,526	3,687	3,828	3,972	4,091	4,150	4,250
Public-sector Employment (000s)	939	941	964	987	988	1,038	1,070
Self-employment (000s)	849	862	896	913	884	880	909
Manufacturing Employment (% of total)	17.7	18.0	18.4	18.7	18.2	18.5	17.5
Services Employment (% of total)	73.4	73.2	72.7	72.7	73.1	73.0	73.5
Part-time (% of total)	19.2	18.6	18.0	17.9	17.8	18.1	18.3
Average Hours Worked Per Week ¹	37.8	37.8	37.9	38.1	37.5	37.4	36.6

Note:

1. Average actual hours worked per week at all jobs, excluding persons not at work, in reference week.

Source: Statistics Canada.

Table 25**Ontario, Unemployment, 1990-2003**

	1990	1991	1992	1993	1994	1995	1996
Total Unemployment (000s)	342	528	593	607	535	489	515
Unemployment Rate (%)	6.2	9.5	10.7	10.9	9.6	8.7	9.0
Male	6.2	10.0	11.9	11.5	10.0	8.9	9.0
Female	6.1	8.9	9.3	10.1	9.1	8.5	9.0
Toronto CMA ¹	5.2	9.5	11.2	11.4	10.4	8.6	9.1
Northern Ontario	8.1	11.4	12.6	12.4	11.6	9.9	10.7
Youth (15-24)	10.0	15.0	17.4	17.5	15.5	14.6	14.9
Older Workers (45+)	4.0	6.8	7.4	7.6	7.0	6.5	6.4
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	13.7	22.5	29.7	33.4	32.3	29.4	28.3
Youth (15-24)	31.7	29.3	29.5	27.8	27.1	27.5	26.6
Older Workers (45+)	16.9	19.0	19.0	19.5	21.1	21.7	20.8
Average Duration (weeks) ²	13.7	18.5	23.3	26.9	27.5	25.8	24.8
Youth (15-24)	10.0	13.5	16.6	18.4	17.8	16.2	15.4
Older Workers (45+)	18.9	22.7	29.7	33.7	34.6	33.4	31.1

Table 25 (continued)

	1997	1998	1999	2000	2001	2002	2003
Total Unemployment (000s)	488	424	383	356	402	464	466
Unemployment Rate (%)	8.4	7.2	6.3	5.7	6.3	7.1	7.0
Male	8.2	7.1	6.2	5.5	6.4	7.3	7.1
Female	8.7	7.2	6.4	5.9	6.2	6.8	6.8
Toronto CMA ¹	8.0	7.0	6.1	5.5	6.3	7.4	7.7
Northern Ontario	10.4	11.0	9.0	8.2	7.9	8.0	7.3
Youth (15-24)	16.4	14.4	13.1	11.8	12.5	13.9	14.5
Older Workers (45+)	5.9	5.3	4.2	4.0	4.4	4.7	4.7
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	25.5	21.8	19.0	15.4	12.9	15.8	16.6
Youth (15-24)	30.9	31.5	33.3	33.1	31.6	31.3	33.3
Older Workers (45+)	21.3	22.6	20.7	22.4	22.9	22.0	23.4
Average Duration (weeks) ²	26.6	23.2	21.2	17.8	15.4	16.5	17.2
Youth (15-24)	13.7	12.7	11.5	9.8	8.7	9.6	9.6
Older Workers (45+)	42.6	39.2	33.6	28.1	25.8	24.2	27.3

Notes:

1. CMA is Census Metropolitan Area. Toronto CMA includes the City of Toronto; the Regions of York, Peel and Halton (excluding Burlington); Uxbridge, Pickering, Ajax, Mono, Orangeville, New Tecumseth and Bradford West Gwillimbury.
2. Prior to 1997, unemployment of 100 or more weeks was recorded as 99 due to data processing limitations. This restriction was removed for data after 1996.

Source: Statistics Canada.

Table 26 **Ontario, Employment Insurance (EI) and Social Assistance, 1990-2003**

	1990	1991	1992	1993	1994	1995	1996
EI Regular Beneficiaries (000s)	214	319	322	294	228	181	180
EI Maximum Insurable Earnings (\$)¹	640	680	710	745	780	815	750
EI Maximum Weekly Entitlement (\$)	384	408	426	425	429	448	413
EI Premium Rate							
Employer (\$/\$100 Insurable Earnings)	3.15	3.15/3.92²	4.20	4.20	4.30	4.20	4.13
Employee (\$/\$100 Insurable Earnings)	2.25	2.25/2.80²	3.00	3.00	3.07	3.00	2.95
EI Total Benefits Paid (\$ millions)³	3,419	5,362	5,845	5,406	4,511	3,796	3,653
EI Premiums Paid (\$ millions)³	5,432	6,220	7,353	7,567	8,067	7,929	7,582
Social Assistance Caseload (000s)⁵	366	499	608	660	673	660	599

Table 26 (continued)	1997	1998	1999	2000	2001	2002	2003
EI Regular Beneficiaries (000s)	151	131	110	101	122	136	142
EI Maximum Insurable Earnings (\$)¹	39,000	39,000	39,000	39,000	39,000	39,000	39,000
EI Maximum Weekly Entitlement (\$)	413	413	413	413	413	413	413
EI Premium Rate							
Employer (\$/\$100 Insurable Earnings)	4.06	3.78	3.57	3.36	3.15	3.08	2.94
Employee (\$/\$100 Insurable Earnings)	2.90	2.70	2.55	2.40	2.25	2.20	2.10
EI Total Benefits Paid (\$ millions)³	3,436	3,141	3,051	2,787	3,524	4,328	4,342
EI Premiums Paid (\$ millions)³	8,173	7,679	7,614	7,668	7,477	7,549⁴	7,231⁴
Social Assistance Caseload (000s)⁵	568	529	479	436	408	411	413

Notes:

1. Effective January 1, 1997, the maximum weekly insurable earnings of \$750 was eliminated and replaced with an annual maximum set at \$39,000.
2. Premium rates for 1991 changed at mid-year.
3. Employment Insurance benefit payments are on a cash basis; premiums are paid on an accrual basis.
4. Premiums paid in 2002 and 2003 are Ontario Ministry of Finance estimates.
5. The number of social assistance cases from 1998 to 2003 includes recipients of the Ontario Works program, the Ontario Disability Support Program, Temporary Care Assistance and the Assistance for Children with Severe Disabilities program. The *Ontario Works Act* was proclaimed in May 1998 and replaced the *General Welfare Act*. The *Ontario Disability Support Program Act* was proclaimed in June 1998.

Sources: Statistics Canada, Human Resources and Skills Development Canada, Ontario Ministry of Finance and Ontario Ministry of Community and Social Services.

Table 27**Ontario, Labour Compensation, 1990-2003**

	1990	1991	1992	1993	1994	1995	1996
Average Weekly Earnings (\$)¹	NA	576.13	598.80	612.33	628.16	634.17	649.55
Increase (%)	NA	NA	3.9	2.3	2.6	1.0	2.4
CPI Inflation (%)	4.9	4.7	1.0	1.8	0.0	2.5	1.5
AWE Increase Less CPI Inflation (%)	NA	NA	2.9	0.5	2.6	-1.5	0.9
AWE - Manufacturing (\$)	NA	683.30	716.55	739.20	761.95	770.80	794.09
Increase (%)	NA	NA	4.9	3.2	3.1	1.2	3.0
Increase Less CPI Inflation (%)	NA	NA	3.9	1.4	3.1	-1.3	1.5
Wage Settlement Increases (%)²							
All Sectors	5.9	4.7	2.7	1.0	0.4	1.0	1.1
Public	6.9	5.0	2.6	0.5	0.1	0.2	0.3
Private	5.2	3.8	2.7	1.9	1.1	1.7	2.2
Person Days Lost Due to Strikes and Lockouts (000s)	2,958	454	578	371	488	477	1,915
Minimum Wage at Year-end (\$/hour)	5.40	6.00	6.35	6.35	6.70	6.85	6.85

Table 27 (continued)

	1997	1998	1999	2000	2001	2002	2003
Average Weekly Earnings (\$)¹	663.73	672.67	683.70	700.12	712.88	725.98	733.00
Increase (%)	2.2	1.3	1.6	2.4	1.8	1.8	1.0
CPI Inflation (%)	1.9	0.9	1.9	2.9	3.1	2.0	2.7
AWE Increase Less CPI Inflation (%)	0.3	0.4	-0.3	-0.5	-1.3	-0.2	-1.7
AWE - Manufacturing (\$)	821.28	841.78	852.13	869.40	882.76	906.10	917.68
Increase (%)	3.4	2.5	1.2	2.0	1.5	2.6	1.3
Increase Less CPI Inflation (%)	1.5	1.6	-0.7	-0.9	-1.6	0.6	-1.4
Wage Settlement Increases (%)²							
All Sectors	1.2	1.6	2.1	2.6	3.0	3.0	3.1
Public	0.7	1.3	1.4	2.7	2.9	2.9	3.5
Private	2.3	2.1	3.1	2.4	3.0	3.0	1.9
Person Days Lost Due to Strikes and Lockouts (000s)	1,904	1,061	651	650	672	1,511	495
Minimum Wage at Year-end (\$/hour)	6.85	6.85	6.85	6.85	6.85	6.85	6.85

Notes:

1. Average Weekly Earnings (AWE) includes overtime. In 2001, Statistics Canada changed its estimates of AWE from the 1980 Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS). AWE based on NAICS is available only back to 1991.
2. Wage settlement increases are for collective agreements covering 200 or more employees, Ontario Ministry of Labour.

Sources: Statistics Canada, Ontario Ministry of Labour and Ontario Ministry of Finance.

Table 28**Ontario, Employment by Occupation, 1992-2003**

	(Thousands)					
	1992	1993	1994	1995	1996	1997
Management	494	523	507	547	537	548
Business, Finance and Administrative	1,033	993	997	1,009	995	993
Natural and Applied Sciences	264	256	260	284	285	314
Health	243	260	258	256	250	265
Social Science, Education, Government Service and Religion	343	340	374	342	341	345
Art, Culture, Recreation and Sport	128	139	150	143	148	148
Sales and Service	1,174	1,207	1,197	1,223	1,255	1,264
Trades, Transport and Equipment Operators	703	701	715	732	743	779
Primary Industry	148	153	148	145	142	145
Processing, Manufacturing and Utilities	419	403	435	450	485	512
Total	4,949	4,974	5,039	5,131	5,181	5,313

Table 28 (continued)

	(Thousands)					
	1998	1999	2000	2001	2002	2003
Management	552	550	566	557	566	593
Business, Finance and Administrative	1,031	1,054	1,079	1,131	1,136	1,160
Natural and Applied Sciences	345	389	423	448	440	446
Health	260	272	279	282	306	322
Social Science, Education, Government Service and Religion	359	390	401	404	412	415
Art, Culture, Recreation and Sport	155	169	172	180	172	184
Sales and Service	1,316	1,351	1,408	1,434	1,465	1,520
Trades, Transport and Equipment Operators	798	792	806	823	846	865
Primary Industry	139	153	142	131	124	134
Processing, Manufacturing and Utilities	536	569	597	573	602	590
Total	5,490	5,688	5,872	5,963	6,068	6,229

Note: Occupational groupings based on Standard Occupational Classification 1991 (SOC91).

Source: Statistics Canada.

Table 29 **Ontario, Distribution of Employment by Occupation, 1992-2003**

	(Per Cent)					
	1992	1993	1994	1995	1996	1997
Management	10.0	10.5	10.1	10.7	10.4	10.3
Business, Finance and Administrative	20.9	20.0	19.8	19.7	19.2	18.7
Natural and Applied Sciences	5.3	5.1	5.1	5.5	5.5	5.9
Health	4.9	5.2	5.1	5.0	4.8	5.0
Social Science, Education, Government Service and Religion	6.9	6.8	7.4	6.7	6.6	6.5
Art, Culture, Recreation and Sport	2.6	2.8	3.0	2.8	2.9	2.8
Sales and Service	23.7	24.3	23.8	23.8	24.2	23.8
Trades, Transport and Equipment Operators	14.2	14.1	14.2	14.3	14.3	14.7
Primary Industry	3.0	3.1	2.9	2.8	2.7	2.7
Processing, Manufacturing and Utilities	8.5	8.1	8.6	8.8	9.4	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 29 (continued) (Per Cent)

	1998	1999	2000	2001	2002	2003
Management	10.1	9.7	9.6	9.3	9.3	9.5
Business, Finance and Administrative	18.8	18.5	18.4	19.0	18.7	18.6
Natural and Applied Sciences	6.3	6.8	7.2	7.5	7.2	7.2
Health	4.7	4.8	4.7	4.7	5.0	5.2
Social Science, Education, Government Service and Religion	6.5	6.9	6.8	6.8	6.8	6.7
Art, Culture, Recreation and Sport	2.8	3.0	2.9	3.0	2.8	2.9
Sales and Service	24.0	23.7	24.0	24.0	24.1	24.4
Trades, Transport and Equipment Operators	14.5	13.9	13.7	13.8	13.9	13.9
Primary Industry	2.5	2.7	2.4	2.2	2.0	2.1
Processing, Manufacturing and Utilities	9.8	10.0	10.2	9.6	9.9	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: Occupational groupings based on Standard Occupational Classification 1991 (SOC91).

Source: Statistics Canada.

Table 30

Ontario, Employment by Industry, 1994-2003

	(Thousands)				
	1994	1995	1996	1997	1998
Goods Producing Industries	1,312	1,348	1,366	1,412	1,469
Primary Industries	155	152	151	143	144
Agriculture	112	107	105	103	106
Manufacturing	838	878	904	939	989
Construction	271	269	261	282	288
Utilities	49	49	50	48	49
Services Producing Industries	3,727	3,782	3,815	3,902	4,021
Trade	771	767	783	802	813
Transportation and Warehousing	236	242	244	248	261
Finance, Insurance, Real Estate and Leasing	355	365	372	377	376
Professional, Scientific and Technical Services	282	302	313	350	372
Business, Building and Other Support	158	174	181	194	210
Educational Services	364	358	340	340	347
Health Care and Social Assistance	503	510	503	495	518
Information, Culture and Recreation	223	233	232	248	243
Accommodation and Food Services	288	293	315	316	335
Public Administration	314	305	290	279	284
Other Services	234	235	242	251	262
Total Employment	5,039	5,131	5,181	5,313	5,490

Table 30 (continued)

Ontario, Employment by Industry, 1994-2003

	(Thousands)				
	1999	2000	2001	2002	2003
Goods Producing Industries	1,550	1,602	1,602	1,636	1,649
Primary Industries	152	133	122	111	116
Agriculture	114	98	84	76	84
Manufacturing	1,049	1,099	1,088	1,120	1,092
Construction	300	324	343	354	386
Utilities	50	46	50	51	55
Services Producing Industries	4,138	4,271	4,361	4,433	4,580
Trade	850	874	924	921	936
Transportation and Warehousing	260	278	276	285	283
Finance, Insurance, Real Estate and Leasing	384	385	395	398	433
Professional, Scientific and Technical Services	397	424	437	436	443
Business, Building and Other Support	224	246	249	255	266
Educational Services	368	369	358	379	386
Health Care and Social Assistance	518	544	553	564	607
Information, Culture and Recreation	257	282	299	288	289
Accommodation and Food Services	340	343	342	364	373
Public Administration	286	274	275	291	306
Other Services	254	252	254	253	259
Total Employment	5,688	5,872	5,963	6,068	6,229

Note: Industrial groupings based on North American Industry Classification System (NAICS).

Source: Statistics Canada.

Table 31

Ontario, Growth in Employment by Industry, 1994-2003

(Per Cent Change)					
	1994	1995	1996	1997	1998
Goods Producing Industries	0.8	2.7	1.3	3.4	4.1
Primary Industries	-2.5	-1.8	-0.9	-5.5	1.1
Agriculture	-2.2	-4.3	-1.5	-2.5	3.1
Manufacturing	2.0	4.8	2.9	3.9	5.4
Construction	2.5	-0.7	-2.6	8.0	1.8
Utilities	-13.9	0.6	1.6	-3.2	1.0
Services Producing Industries	1.5	1.5	0.9	2.3	3.0
Trade	-0.9	-0.6	2.2	2.4	1.4
Transportation and Warehousing	6.6	2.8	0.6	1.8	5.3
Finance, Insurance, Real Estate and Leasing	-3.4	2.8	2.2	1.3	-0.5
Professional, Scientific and Technical Services	4.4	7.0	3.8	11.7	6.3
Business, Building and Other Support	3.8	9.9	4.0	7.4	8.0
Educational Services	2.2	-1.7	-5.0	0.0	2.1
Health Care and Social Assistance	1.5	1.4	-1.4	-1.5	4.6
Information, Culture and Recreation	6.7	4.6	-0.5	7.0	-2.1
Accommodation and Food Services	2.5	1.8	7.4	0.6	5.8
Public Administration	-1.4	-2.8	-4.9	-3.7	1.6
Other Services	4.2	0.4	3.1	3.5	4.6
Total Employment	1.3	1.8	1.0	2.6	3.3

Table 31 (continued)

Ontario, Growth in Employment by Industry, 1994-2003

		(Per Cent Change)				
		1999	2000	2001	2002	2003
Goods Producing Industries		5.5	3.3	0.0	2.1	0.8
Primary Industries		5.6	-12.7	-8.5	-8.8	5.1
Agriculture		7.9	-14.4	-14.2	-8.7	9.8
Manufacturing		6.0	4.8	-1.0	3.0	-2.5
Construction		4.4	7.8	6.1	3.1	9.0
Utilities		1.2	-6.3	7.1	2.4	7.5
Services Producing Industries		2.9	3.2	2.1	1.7	3.3
Trade		4.5	2.8	5.7	-0.3	1.6
Transportation and Warehousing		-0.5	7.0	-0.7	3.1	-0.6
Finance, Insurance, Real Estate and Leasing		2.3	0.3	2.4	0.9	8.8
Professional, Scientific and Technical Services		6.5	6.8	3.1	-0.2	1.6
Business, Building and Other Support		7.0	9.5	1.5	2.2	4.2
Educational Services		6.2	0.2	-3.0	5.7	1.8
Health Care and Social Assistance		0.0	5.0	1.5	2.0	7.6
Information, Culture and Recreation		5.7	9.9	6.1	-3.6	0.3
Accommodation and Food Services		1.6	0.7	-0.3	6.5	2.5
Public Administration		0.6	-4.0	0.3	6.0	5.2
Other Services		-3.3	-0.8	0.9	-0.5	2.5
Total Employment		3.6	3.2	1.5	1.8	2.6

Note: Industrial groupings based on North American Industry Classification System (NAICS).

Source: Statistics Canada.

Table 32

Ontario, Employment Level by Economic Regions, 1993-2004²

	(Thousands)					
	1993	1994	1995	1996	1997	1998
Ontario	4,974	5,039	5,131	5,181	5,313	5,490
Region:*						
East	683	701	674	674	686	727
Ottawa (510)	503	521	501	508	516	543
Kingston-Pembroke (515)	180	180	172	166	170	183
Greater Toronto Area (530)¹	2,119	2,115	2,215	2,242	2,348	2,426
Central	1,139	1,173	1,194	1,209	1,230	1,276
Muskoka-Kawarths (520)	136	137	148	148	150	152
Kitchener-Waterloo-Barrie (540)	458	470	469	478	496	515
Hamilton-Niagara Peninsula (550)	546	567	577	583	584	609
Southwest	689	705	686	699	704	714
London (560)	285	288	285	278	283	286
Windsor-Sarnia (570)	267	274	272	279	277	286
Stratford-Bruce Peninsula (580)	137	143	130	142	145	142
North	344	345	362	357	345	348
Northeast (590)	238	237	248	247	241	244
Northwest (595)	106	108	114	110	105	105

Table 32 (continued)

	(Thousands)					
	1999	2000	2001	2002	2003	2004 ²
Ontario	5,688	5,872	5,963	6,068	6,229	6,319
Region:*						
East	750	757	776	787	807	804
Ottawa (510)	556	573	587	592	615	609
Kingston-Pembroke (515)	195	184	189	195	192	194
Greater Toronto Area (530)¹	2,511	2,616	2,689	2,743	2,817	2,879
Central	1,322	1,371	1,374	1,401	1,459	1,476
Muskoka-Kawarths (520)	161	165	157	159	178	188
Kitchener-Waterloo-Barrie (540)	544	552	562	584	598	611
Hamilton-Niagara Peninsula (550)	618	654	655	659	683	678
Southwest	744	763	757	767	773	794
London (560)	299	307	304	306	314	326
Windsor-Sarnia (570)	296	304	305	311	311	309
Stratford-Bruce Peninsula (580)	149	152	149	150	148	160
North	361	366	366	370	372	366
Northeast (590)	250	253	257	255	255	254
Northwest (595)	112	113	110	115	118	112

* Standard deviations vary significantly across regions, decreasing as the size of the region increases.

Notes:

All figures are average annual employment levels.

1. Economic region of Toronto (530) closely matches the GTA, except that it excludes the City of Burlington.

2. Figures are year-to-date averages of the first nine months of 2004.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 33

Ontario, Employment Level by Industry for Economic Regions, 2003

	(Thousands)			
	All Industries	Agriculture	Resources ¹	Manu- facturing
Ontario	6,229	84	33	1,092
Region:				
East	807	12	2	80
Ottawa (510)	615	8	...	54
Kingston-Pembroke (515)	192	5	2	25
Greater Toronto Area (530)	2,817	9	3	496
Central	1,459	29	3	303
Muskoka-Kawarthas (520)	178	4	...	28
Kitchener-Waterloo-Barrie (540)	598	10	...	140
Hamilton-Niagara Peninsula (550)	683	14	...	136
Southwest	773	31	3	171
London (560)	314	11	...	61
Windsor-Sarnia (570)	311	8	2	82
Stratford-Bruce Peninsula (580)	148	12	...	28
North	372	3	22	41
Northeast (590)	254	2	15	26
Northwest (595)	118	...	7	15

Table 33 (continued)

	(Thousands)			
	Construction	Distributive ²	Finance, Prof. & Mgmt. ³	Info., Culture & Recreation ⁴
Ontario	386	562	1,141	289
Region:				
East	48	59	140	34
Ottawa (510)	36	45	115	29
Kingston-Pembroke (515)	12	15	25	5
Greater Toronto Area (530)	163	285	659	142
Central	104	120	210	70
Muskoka-Kawarthas (520)	17	15	22	9
Kitchener-Waterloo-Barrie (540)	44	50	88	25
Hamilton-Niagara Peninsula (550)	44	55	100	36
Southwest	47	67	93	28
London (560)	20	25	46	11
Windsor-Sarnia (570)	18	23	33	13
Stratford-Bruce Peninsula (580)	9	19	14	5
North	24	31	40	15
Northeast (590)	16	21	28	10
Northwest (595)	7	10	12	5

Table 33 (continued) Ontario, Employment Level by Industry for Economic Regions, 2003

	(Thousands)		
	Retail Trade	Personal Services ⁵	Education
Ontario	711	632	386
Region:			
East	95	81	55
Ottawa (510)	70	59	37
Kingston-Pembroke (515)	25	22	18
Greater Toronto Area (530)	301	276	162
Central	174	155	92
Muskoka-Kawarthas (520)	24	20	11
Kitchener-Waterloo-Barrie (540)	69	59	39
Hamilton-Niagara Peninsula (550)	81	77	43
Southwest	93	77	49
London (560)	34	32	22
Windsor-Sarnia (570)	39	32	20
Stratford-Bruce Peninsula (580)	20	13	7
North	49	43	28
Northeast (590)	34	29	18
Northwest (595)	14	14	10

(Thousands)

	Health & Soc. Assistance	Public Administration
Ontario	606	306
Region:		
East	88	112
Ottawa (510)	62	99
Kingston-Pembroke (515)	25	13
Greater Toronto Area (530)	226	96
Central	146	54
Muskoka-Kawarthas (520)	21	8
Kitchener-Waterloo-Barrie (540)	52	22
Hamilton-Niagara Peninsula (550)	73	24
Southwest	92	22
London (560)	42	10
Windsor-Sarnia (570)	33	8
Stratford-Bruce Peninsula (580)	17	4
North	55	23
Northeast (590)	39	16
Northwest (595)	16	7

... All figures are average annual employment levels.
 Sub-regional figures may not add up to regional totals due to rounding.
 Employment numbers under 1,500 are suppressed because they are statistically unreliable.
 See standard deviation and GTA note for Table 32.
 Industrial groupings based on North American Industry Classification System (NAICS).

Notes:

1. Includes Forestry, Fishing, Mining, Oil and Gas.
2. Includes Transportation and Warehousing, Utilities and Wholesale Trade.
3. Includes Finance, Insurance, Real Estate and Leasing; Management of Companies, Administrative and Support Services; and Professional, Scientific and Technical Services.
4. Information, Culture and Recreation includes industries such as Publishing, Motion Picture and Sound Recording, Broadcasting and Telecommunications, Information Services and Data Processing Services, Performing Arts, Spectator Sports and Related Industries, Heritage Institutions and Amusement, Gambling and Recreation.
5. Includes Accommodation and Food Services and Other Services (such as Repair and Maintenance, Personal and Laundry, Religious, Grant-making, Civic, Professional and Similar Organizations).

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 34**Ontario Economic Regions¹****East**

Ottawa (510)	The united counties of Stormont, Dundas and Glengarry, Prescott and Russell, Leeds and Grenville, the county of Lanark and the Ottawa Division
Kingston-Pembroke (515)	The counties of Lennox and Addington, Hastings, Renfrew and Frontenac and the Prince Edward Division

Central

Muskoka-Kawarthas (520)	The counties of Northumberland, Peterborough, Haliburton, the Muskoka District Municipality and the Kawartha Lakes Division
Kitchener-Waterloo-Barrie (540)	The counties of Dufferin, Wellington and Simcoe and the Waterloo Regional Municipality
Hamilton-Niagara Peninsula (550)	The county of Brant, the Regional Municipalities of Niagara, Haldimand-Norfolk, the Hamilton Division and the City of Burlington in Halton Regional Municipality

Greater Toronto Area²

Toronto (530)	Toronto Division, the Regional Municipalities of Durham, York, Peel and Halton (excluding the City of Burlington)
---------------	---

Southwest

London (560)	The counties of Oxford, Elgin and Middlesex
Windsor-Sarnia (570)	The counties of Lambton and Essex and the Chatham-Kent Division
Stratford-Bruce Peninsula (580)	The counties of Perth, Huron, Bruce and Grey

North

Northeast (590)	The districts of Nipissing, Parry Sound, Manitoulin, Sudbury, Timiskaming, Cochrane, Algoma and the Greater Sudbury Division
Northwest (595)	The districts of Thunder Bay, Rainy River and Kenora

Notes:

1. As defined by Statistics Canada, *Standard Geographical Classification SGC 2001*.
2. Economic Region 530 closely matches the GTA, except that it excludes the City of Burlington.

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The Honourable Dwight Duncan
Minister of Finance



2005

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*Economic Outlook and
Fiscal Review*

Background Papers

The Honourable Dwight Duncan
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General inquiries regarding the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers* should be directed to:

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ANNEX I

ONTARIO'S ECONOMIC AND REVENUE OUTLOOK

INTRODUCTION AND OVERVIEW

This annex outlines Ontario's current economic and revenue outlook.¹ It discusses how these have evolved since the 2005 Budget. Although the global economic environment is constantly changing, as are Ontario's growth prospects, the province's economic outlook is positive and the fiscal plan remains on track.

During the first half of 2005, the Ontario economy demonstrated considerable resilience in the face of higher oil prices and the strong Canadian dollar. The average private-sector forecast for Ontario real growth in 2005 has increased from 2.3 per cent at the time of the 2005 Ontario Budget to 2.5 per cent currently. Based on the positive developments to date, the Ministry of Finance real gross domestic product (GDP) growth assumption for 2005 has been increased from 2.0 per cent at the time of the 2005 Ontario Budget to 2.2 per cent currently.

While Ontario's economic growth has exceeded expectations during the first half of 2005, the sharp increases in oil prices and the Canadian dollar since Hurricanes Katrina and Rita have affected the province's growth prospects for the future. Private-sector forecasts for Ontario real growth in 2006 have decreased from 2.9 per cent at the time of the 2005 Ontario Budget to 2.6 per cent currently.

ONTARIO ECONOMIC OUTLOOK (PER CENT)

	2003	2004	2005p	2006p	2007p	2008p
Real GDP Growth	1.7	2.8	2.2	2.6	3.2	3.3
Nominal GDP Growth	3.3	4.7	4.1	4.5	4.8	5.0
Unemployment Rate	7.0	6.8	6.7	6.5	6.3	6.1
CPI Inflation	2.7	1.9	2.3	2.2	1.8	1.9

p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

Private-sector forecasters expect Ontario's real economic growth to average 2.9 per cent annually over the 2005 to 2008 period. This forecast reflects the interplay of external forces, including the stronger Canadian dollar, interest rates, the health of the U.S. economy and higher oil prices. Over the past few years, both oil prices and the Canadian dollar have moved in a direction that has restrained Ontario's economic growth. From 2001 to 2004, real GDP increased by an annual average rate of 2.3 per cent, compared to

¹ This document is based on economic data available at October 26, 2005.

its 20-year average of 3.0 per cent. Employment is expected to rise by 1.2 per cent in 2005, following a 1.7 per cent gain in 2004. This has resulted in modest gains in personal income and spending.

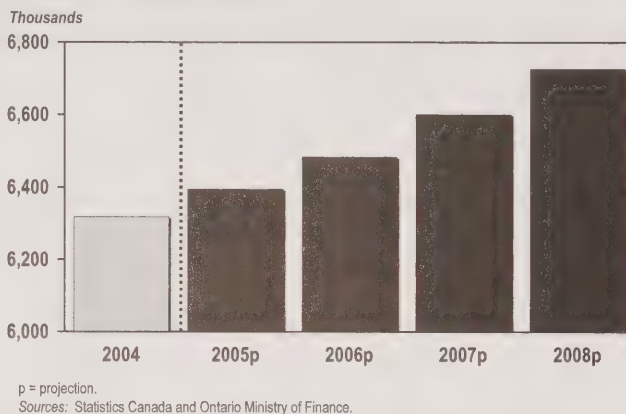
Over the 2007 to 2008 period, growth is expected to improve as the economy adjusts to the strong dollar and higher oil prices. Private-sector forecasters expect real output to rise by 3.2 per cent in 2007 and 3.3 per cent in 2008. These projections of economic growth support the outlook for revenue growth over the 2005-06 to 2008-09 period. The Ontario Ministry of Finance's revised planning assumptions for 2005 to 2008 are at or below the private-sector average.

The Ontario economy has added 193,100 net new jobs since September 2003. This year, average annual employment is expected to grow by 77,000 jobs. There have been strong job gains in wholesale and retail trade; education; finance, insurance, real estate and leasing; and construction. Job gains have lowered the unemployment rate to 6.4 per cent in September 2005.

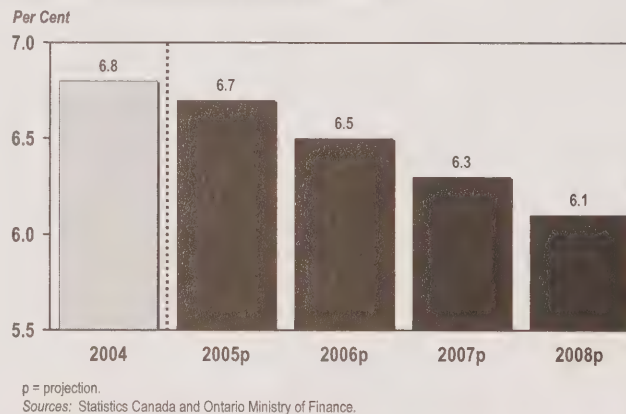
Ontario employment is expected to increase by 1.4 per cent in 2006, following an estimated gain of 1.2 per cent in 2005, or 167,000 jobs over this two-year period. Economic growth is projected to strengthen in 2007 and 2008, generating an additional 242,000 jobs, an average increase of 1.9 per cent a year. This will bring Ontario's unemployment rate down to 6.1 per cent in 2008.

Ontario is part of the North American manufacturing heartland and is well situated to serve major Canadian and U.S. markets. Ontario's top 10 manufacturing export industries — contributing 89 per cent of total manufacturing exports — enjoy significant skills and knowledge advantages, as well as competitive labour costs, when compared to the United States.

Ontario Employment



Ontario Unemployment Rate



Ontario's top 10 manufacturing export industries have a higher proportion of their workforce that have completed postsecondary education than their counterparts in the United States. In Ontario, about 48 per cent of the workforce in these industries have completed postsecondary education. In the United States, 32 per cent have completed postsecondary education.

ONTARIO'S TOP 10 MANUFACTURING EXPORT INDUSTRIES SKILLS ADVANTAGE (2001) SHARE OF WORKFORCE WITH COMPLETED POSTSECONDARY EDUCATION

	Ontario's Skills Advantage %*	Ontario %	U.S.%
Motor Vehicle and Equipments	16	43	27
Chemicals	12	60	48
Machinery	27	60	33
Primary Metals	25	47	22
Computer and Electronics	16	70	55
Plastic and Rubber	13	37	24
Food	19	39	20
Pulp and Paper	16	42	26
Fabricated Metal	25	47	22
Furniture	18	36	18
Total	16	48	32

* Ontario's per cent of workforce with completed postsecondary education minus that of the United States.

Ages 25 and older. Numbers do not add due to rounding.

Sources: Statistics Canada, U.S. Bureau of Labor Statistics, and Ontario Ministry of Finance comparisons based on OECD standardized educational attainment categories.

For seven of the top 10 manufacturing export industries², Ontario labour costs (wages plus health costs) are lower than in the United States at 81.8 cents US (the average exchange rate for the past 12 months). These seven Ontario industries contribute 72 per cent of the province's total manufacturing exports. The industries with the highest labour-cost advantage in 2003 included computer and electronics (15 per cent), the automotive sector (12 per cent) and chemicals (11 per cent). The projected 2006 exchange rate of 84.4 cents US for the Canadian dollar in this report would reduce the labour-cost advantage for these Ontario industries by roughly three percentage points, although they remain competitive.

² These include motor vehicle assembly and parts; chemicals; computer and electronics; plastic and rubber; food; fabricated metal; and furniture.

The short-term economic outlook is strongly influenced by events originating outside Ontario, such as oil prices, the high Canadian dollar and U.S. economic growth. The provincial government has little or no influence over these developments, but it does influence the long-term trends that ultimately determine the standard of living in Ontario.

As stated in the October 2005 Throne Speech, the government is aiming to strengthen Ontario's underlying advantages, which will help maintain strong growth in the face of increasing global competition and volatility.

STRENGTHENING ONTARIO'S ECONOMIC ADVANTAGE

The key features of the Ontario Government's strategy are:

- **Education and skills**, because a well-educated population is vital to attracting investment and boosting productivity in all areas of a modern high-tech economy. Toyota's recent decision to build a new plant in Ontario was heavily influenced by the high quality of the workforce they found in their previous operations in Ontario.
- **Improving the health of our people**, because healthy workers are productive workers. The availability of universal, cost-effective health care is a major cost saving for Ontario employers.
- **Innovation for the 21st century**, to ensure that Ontario is at the forefront of new discoveries, with the ability to turn them into products and services and market them to the world.
- **Leveraging our diversity**: Ontario attracts the best and brightest from around the world. This will be an increasing advantage for Ontario as our population ages, and we have to make the most of it by eliminating barriers that hinder the full and productive integration of new Canadians into our workforce.
- **Getting the fundamentals right**: Ontario is committed to a sound fiscal policy, and ensuring that public infrastructure and electricity are provided in a timely and cost-effective manner.

The \$6.2 billion Reaching Higher plan announced in the 2005 Budget will invest in postsecondary education and training over the next five years, further strengthening the competitive advantage of Ontario's economy and supporting the Ontario Government's Strong People, Strong Economy priority.

POSTSECONDARY EDUCATION INITIATIVES: REACHING HIGHER

As announced in the 2005 Ontario Budget, \$6.2 billion in new investments are being made in postsecondary education by 2009-10 to enhance Ontario's competitive advantage:

- A significant increase in the number of students enrolled at universities and colleges.
- 14,000 more students in graduate education by 2009-10.
- Enhanced student assistance for 135,000 students starting this year, including 32,000 receiving low-income tuition grants.
- A new Ontario Trust for Student Support to establish endowments for student bursaries.
- Initiatives to improve access for people previously under-represented in higher learning.
- New funding to improve health education and expand first-year medical spaces by 23 per cent.
- Additional capital support to expand graduate and medical school education.
- Funding for new labour-market services and initiatives for new Canadians.

INITIATIVES FOR NEW CANADIANS

The Ontario Government has introduced initiatives to ensure new Canadians can contribute the skills they bring to the province:

- Over 35 Bridge Training projects to help qualified new Canadians move quickly into the labour market.
- Continued funding for the World Education Services Canada (WES) to assess the educational qualifications of newcomers.
- Career planning information for 22 professions and 13 skilled trades and new labour-market information Web sites to assist internationally trained individuals.
- Reduced barriers and improved opportunities by working with 36 occupational regulators.
- A new immigration portal on the Internet to provide timely labour-market and skills accreditation information to prospective newcomers.
- Progress made in establishing a One-Stop Training and Employment System to provide seamless access to all training and employment programs.
- Progress being made to conclude an immigration agreement with the federal government to provide new funding for settlement and language training, including funding English-as-a-Second-Language to provide training for an additional 30,000 newcomers to Ontario.
- An International Medical Graduate (IMG) program to provide training, assessment and support to ensure internationally trained medical professionals can become registered and practise in Ontario.

Additional information on Ontario's economic performance can be found in Annex VI, *Economic Data Tables*.

SECTION I: ONTARIO ECONOMIC OUTLOOK

This section outlines the Ontario economic outlook for 2005 to 2008. In order to establish reasonable fiscal plans, the government monitors and consults with private-sector forecasters to develop a set of economic projections. The assumptions about Ontario's economic performance that are used in fiscal planning are typically at or below the average private-sector forecast.

Currently, private-sector economists, on average, expect Ontario real GDP growth of 2.5 per cent in 2005, 2.6 per cent in 2006, 3.2 per cent in 2007 and 3.3 per cent in 2008.

PRIVATE-SECTOR FORECASTS FOR ONTARIO REAL GDP GROWTH (PER CENT)

	2005	2006	2007	2008
Conference Board (October)	2.4	2.9	3.4	3.4
Global Insight (October)	2.9	2.5	2.8	3.0
Centre for Spatial Economics (August)	2.4	3.0	3.0	3.0
University of Toronto (September)	2.8	2.1	3.4	3.6
Bank of Montreal (August)	2.7	3.4	—	—
RBC Financial (October)	2.4	3.1	—	—
Scotiabank (October)	2.3	2.0	—	—
TD Bank (September)	2.6	2.7	—	—
Nesbitt Burns (October)	2.3	2.3	—	—
CIBC World Markets (October)	2.3	1.8	—	—
Average	2.5	2.6	3.2	3.3

Source: Ontario Ministry of Finance Survey of Forecasts (October 2005).

CHANGES IN PRIVATE-SECTOR FORECASTS FOR EXTERNAL FACTORS

Although Ontario's economic performance so far in 2005 has exceeded expectations in terms of output, employment and incomes, there have been a number of developments in the global economy that pose significant challenges.

Oil prices have risen higher and faster than almost any forecaster had projected. Other key commodity prices have increased sharply as well, including natural gas, metals and minerals. This raises costs for Ontario's businesses and consumers.

As commodity prices have climbed this year, the Canadian dollar's appreciation has gathered momentum. The currency touched a 13-year high against the U.S. dollar in late September 2005. This hinders the ability of Ontario businesses to compete in the global economy. However, the high dollar benefits some Ontario households and businesses by lowering the cost of imported consumption goods and investment in machinery and equipment.

The U.S. economy has continued to grow at a strong pace, close to the projections underlying the 2005 Ontario Budget. The devastation caused by Hurricanes Katrina and Rita temporarily disrupted the U.S. economy, but rebuilding efforts may stimulate activity in the final months of 2005 and the first part of 2006. High levels of consumer debt and the massive U.S. fiscal and current account deficits raise questions about the sustainability of U.S. economic growth.

Short-term interest rates have remained close to levels expected in May 2005. Long-term rates, however, have been significantly lower than expected. The Bank of Canada has increased its target for the overnight interest rate twice in the past two months, and has signalled that there are likely to be additional increases in the coming year.

The table below highlights the changes since the Budget in the average private-sector forecast of several external factors that are key determinants of Ontario's economic growth.

KEY EXTERNAL FACTORS AFFECTING ONTARIO'S ECONOMY

AVERAGE PRIVATE-SECTOR FORECAST

	2005 Outlook		2006 Outlook	
	2005 Budget May	Current October	2005 Budget May	Current October
Canadian Dollar (Cents US)	82.0	82.4	82.4	84.4
Crude Oil (\$ US per Barrel)	49.1	57.4	44.5	59.1
U.S. Real GDP Growth (Per Cent)	3.4	3.5	3.3	3.3
3-month Treasury Bill Rate (Per Cent)	2.6	2.7	3.3	3.5
10-year Government Bond Rate (Per Cent)	4.5	4.1	5.0	4.5

Sources: Consensus Economics, *Blue Chip Economic Indicators* and Ontario Ministry of Finance Survey of Forecasts.

The most significant change in private-sector forecasts has been a dramatic rise in the outlook for oil prices. At the time of the Budget, forecasters projected crude oil prices would average \$49.10 US per barrel in 2005 and ease to \$44.50 US in 2006. Since then, assessments of the price of oil have been revised substantially higher, with the average private-sector projection now \$57.40 US per barrel in 2005 and \$59.10 US per barrel in 2006.

Forecasts of the Canadian dollar currently average 84.4 cents US for 2006 — two cents higher than projected at the time of the Budget.

External factors have a significant bearing on the performance of the Ontario economy and deviations from their projected path can cause the province's growth to be slower or faster.

The table on the next page shows the typical range for the first- and second-year impact of changes in these external factors on the real growth of our economy. These estimates are based on historical relationships and illustrate the upper and lower bounds for the average response. The results show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of other circumstances can also have a substantial bearing on the actual outcome. The range of possible impacts reflects a variety of factors. For example:

- A percentage point increase in U.S. real growth would add 0.3 to 0.7 percentage points to real growth in Ontario in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.

- A five-cent rise in the Canadian dollar would reduce Ontario real growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as the extent to which firms pass lower import costs through to domestic prices for goods and services in Canada.
- A sustained \$10 US per barrel increase in the price of world crude oil would lower U.S. growth and trim Ontario's real growth by 0.3 to 0.7 percentage points in the first year. This impact assumes a matching rise in natural gas prices since it is a substitute source of energy. The range is due in part to uncertainty regarding the degree to which higher energy costs affect consumer and business expectations and behaviour.
- A one percentage point rise in nominal interest rates would reduce Ontario real GDP growth by 0.1 to 0.5 percentage points in the first year. Real growth would be reduced further in the second year, owing to the length of time it takes for monetary policy changes to affect spending. Higher interest rates discourage interest-sensitive spending such as housing and durable goods purchases. The range in part reflects the extent to which the negative impact would be offset by higher interest income.

IMPACTS OF CHANGES IN KEY ASSUMPTIONS ON ONTARIO REAL GDP GROWTH*
(PERCENTAGE POINT CHANGE)

	First Year	Second Year
Canadian Dollar Appreciates by Five Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by \$10 US per Barrel	-0.3 to -0.7	-0.1 to -0.5
U.S. Real GDP Growth Increases by One Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Interest Rates Increase by One Percentage Point	-0.1 to -0.5	-0.2 to -0.6

*Impacts based on changes being sustained.

Source: Ontario Ministry of Finance.

CHANGES IN THE ECONOMIC OUTLOOK FOR 2005

The Ontario economy has shown remarkable resilience to date in the face of mounting external pressure from higher oil prices and the stronger Canadian dollar. Data thus far in 2005 show the actual performance of the Ontario economy has exceeded expectations. This has led to a cautious upward adjustment to the Ministry of Finance economic outlook for 2005.

Real GDP is now expected to increase by 2.2 per cent in 2005, up from the Budget's projection of 2.0 per cent. As a result of stronger economic growth, job creation has been stronger, with employment now expected to increase by 1.2 per cent, above the 1.0 per cent projection in the Budget. The better showing in the labour market has bolstered the consumer sector. Personal income is projected to increase by 4.2 per cent this year, compared to the Budget forecast of 3.8 per cent, while the outlook for retail sales growth has been raised from 4.0 per cent to 5.0 per cent. Housing starts are projected to reach 78,600 units this year, up from the Budget view of 75,400. The business sector is performing better than anticipated as well, with corporate profits expected to grow by 5.2 per cent in 2005, compared to the Budget assumption of 3.0 per cent.

The table below shows changes in key forecast components compared to the Budget projections for 2005.

THE ONTARIO ECONOMY IN 2005 (PER CENT CHANGE)

	2005 Budget	2005 Fall Update
Real Gross Domestic Product	2.0	2.2
Personal consumption	2.6	3.2
Residential construction	0.8	0.8
Non-residential construction	1.8	1.6
Machinery and equipment	10.3	5.2
Exports	2.0	1.1
Imports	4.9	2.8
Nominal Gross Domestic Product	3.9	4.1
Other Economic Indicators		
Retail sales	4.0	5.0
Housing starts (000s)	75.4	78.6
Personal income	3.8	4.2
Wages and salaries*	3.6	4.1
Corporate profits	3.0	5.2
Consumer Price Index	2.1	2.3
Labour Market		
Employment	1.0	1.2
Job creation (000s)	65	77
Unemployment rate (per cent)	6.7	6.7

*Includes supplementary labour income.

Source: Ontario Ministry of Finance.

OIL PRICES

Oil prices have risen dramatically over the past three years, more than doubling from under \$30 US per barrel in September 2003 to a record \$70 US in late August of this year. The steep increase in oil prices over this period reflects, in large part, strong global demand, particularly from China, and the lowest level of worldwide spare production capacity in three decades. Other factors have played a role as well, including political unrest in key oil-producing regions.

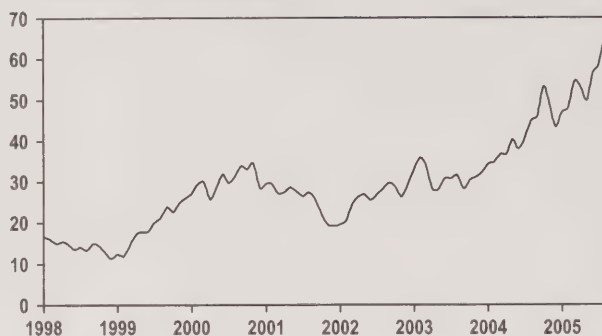
The main drivers behind the dramatic rise in oil prices are likely to remain in place in the near term, augmented by the disruption of production and refining capacity in the Gulf of Mexico. As a result, the average private-sector forecast, measured by Consensus Economics, is for high oil prices to persist. The price of crude oil is projected to be \$62.00 US per barrel in January 2006, easing to \$57.30 US in October 2006. It should be noted that there is a considerable difference of opinion among forecasters about the likely path of oil prices, with forecasts for October 2006 ranging from a low of \$48 US per barrel to a high of \$75 US.

Over the longer term, many forecasters expect crude oil prices to ease to about \$50 US in 2007 and 2008, reflecting a better balance between supply and demand. Though a moderation from current levels, this would still be well above the price range expected for oil as recently as June.

Crude oil is a key commodity for all major industrialized economies, particularly the United States, which consumes about a quarter of global production. The Ontario economy is vulnerable to high oil prices because it imports virtually all of the oil required to meet consumer and business demand.

Crude Oil Prices

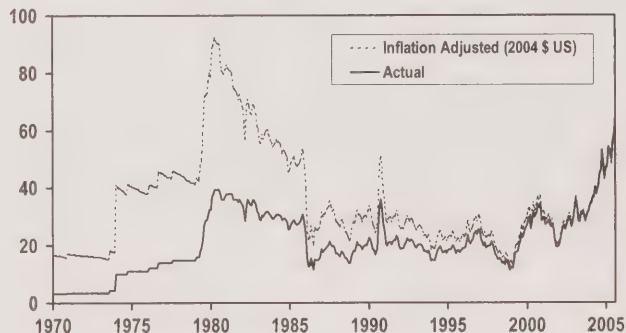
\$ US per barrel, West Texas Intermediate



Source: New York Mercantile Exchange.

Actual and Inflation-Adjusted Crude Oil Prices

\$ US per barrel, West Texas Intermediate



Sources: New York Mercantile Exchange and U.S. Bureau of Labor Statistics.

In the current environment, three major factors suggest it is unlikely that the run-up in oil prices by itself will significantly slow U.S. economic growth:

- The recent rise in oil prices has been driven in large part by demand. The increase has been more gradual and of longer duration than during previous periods, when sharp and sudden withdrawals of oil supply caused wild price fluctuations. For example, the price of crude oil jumped 168 per cent in 1974, 152 per cent between 1978 and 1980, and 111 per cent between 1998 and 2000. By comparison, oil prices increased 59 per cent between 2002 and 2004, and a further 39 per cent in 2005 (based on the average private-sector forecast for 2005) — a total increase of 120 per cent over these three years. The difference in the recent period has been the persistence in price increases, with crude oil up a record nine straight quarters.
- In inflation-adjusted terms, the price of oil today remains well below the record levels reached in the early 1980s.
- The U.S. economy is less reliant on energy than in the past. Energy intensity, as measured by the ratio of energy consumption to U.S. real GDP, has declined by about 50 per cent over the last 35 years.
- The Ontario economy is also more energy efficient. Since 1981, Ontario real GDP has almost doubled while the province's consumption of petroleum products has risen by about 17 per cent and consumption of natural gas has risen by only 48 per cent.

U.S. ECONOMY

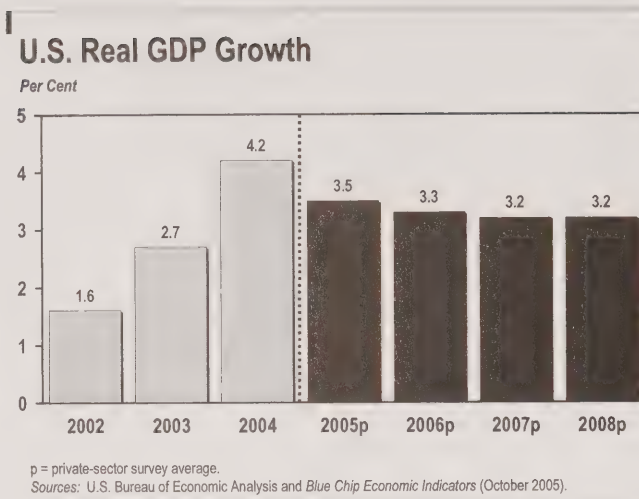
The U.S. economy is expected to grow by 3.5 per cent in 2005, easing from a gain of 4.2 per cent in 2004, the fastest pace of growth since 1999. Economists expect growth to moderate but remain healthy. The *Blue Chip Economic Indicators* survey calls for U.S. real GDP growth of 3.3 per cent in 2006 and 3.2 per cent in both 2007 and 2008.

The strength and composition of the U.S. expansion are key determinants of the pace of growth in Ontario. The U.S. economy is Ontario's largest export market. Exports to the United States accounted for over 90 per cent of Ontario international merchandise exports in 2004, led by the automotive sector at 45.3 per cent of the total.

There are a number of risks to the U.S. outlook. Taken together, surging energy prices, rising interest rates and burgeoning personal debt levels could begin to dampen household spending. The potential for softening house prices could reduce funds available from home-equity financing. Higher gasoline prices appear to have curbed, at least temporarily, consumer demand for vehicles, especially models with low gas mileage.

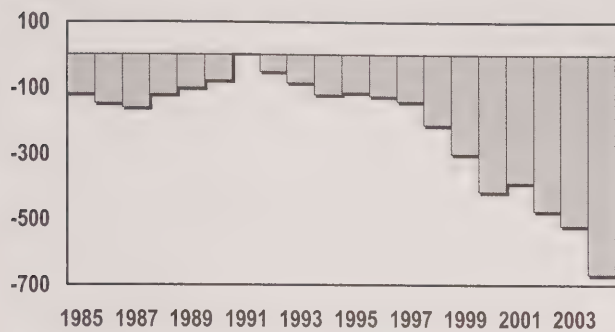
There is concern that the record size of the U.S. budget and current account deficits leave the economy exposed to a potential cutback in foreign capital inflows. As of the second quarter of 2005, the U.S. current account deficit was equivalent to 6.3 per cent of GDP, surpassing 2004's record of 5.7 per cent. Government spending associated with post-hurricane rebuilding is providing near term stimulus, but soaring import prices for commodities and other materials are expected to push both the fiscal and current account deficits higher in 2006.

Over the past decade, U.S. growth has been driven by domestic demand, while international trade has been a drag on economic growth. If confidence in the U.S. economy were to weaken, the U.S. dollar could depreciate sharply, causing interest rates to rise rapidly, weakening overall U.S. economic activity. Ontario's economy, which is closely tied to the U.S. economy, would also suffer in such a scenario. However, forecasts for continued U.S. economic growth indicate that economists expect the current account and fiscal deficits to be reduced gradually over time without an abrupt setback. Forecasts for U.S. real GDP growth in 2006, among the over 50 forecasters surveyed by the *Blue Chip Economic Indicators*, range from 2.5 to 4.0 per cent.



U.S. Current Account Balance

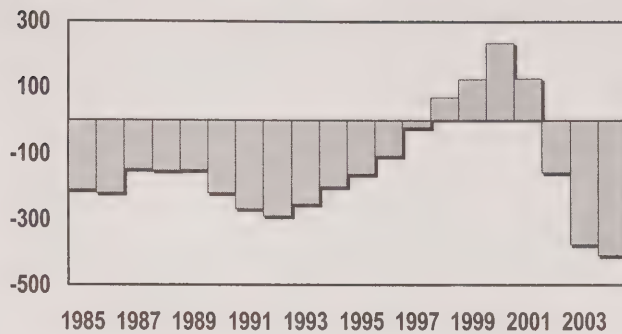
\$ Billions US



Source: U.S. Department of Commerce.

U.S. Fiscal Balance

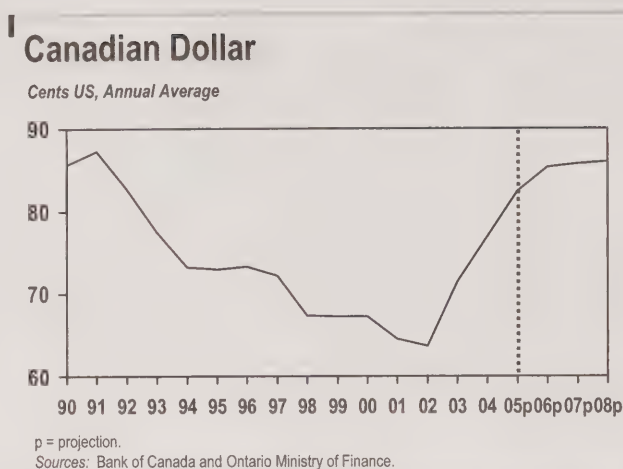
\$ Billions US



Source: U.S. Office of Management and Budget.

THE CANADA-U.S. EXCHANGE RATE

The Canadian dollar has appreciated markedly against the U.S. dollar over the past three years. Since early 2002, the dollar has risen 38 per cent against the U.S. currency, reaching a 13-year high of over 86 cents US in late September 2005. The Canadian dollar has also appreciated against other currencies recently, rising over 13 per cent against the euro and close to 11 per cent against the Japanese yen since last December. The Canadian dollar's strength in recent years is a reflection of solid economic fundamentals and rising commodity prices.



The rapid increase in the Canadian dollar is a challenge for Ontario manufacturers who sell their goods in an increasingly competitive global marketplace. Manufacturers, who make up 21 per cent of Ontario's economic activity, are responding by investing to raise productivity. In addition, production is moving towards higher value-added products.

About 60 per cent of Ontario machinery and equipment is imported from the United States. The higher dollar lowers the cost of machinery and equipment imports that help to increase productivity. At the same time, the higher dollar increases the purchasing power of Ontario consumers by lowering prices for imported consumption goods and reducing the costs of travelling outside Canada.

There is considerable difference of opinion about the future path of the dollar. Private-sector forecasts for the average value of the dollar in 2006 range from a low of 80.5 cents US to a high of 88.5 cents US, averaging 84.4 cents US.

PRIVATE-SECTOR FORECASTS FOR THE CANADIAN DOLLAR (CENTS US)

	2003	2004	2005p	2006p	2007p	2008p
Average	71.4	76.8	82.4	84.4	82.9	83.6
High	—	—	—	88.5	86.4	85.9
Low	—	—	—	80.5	79.8	81.0

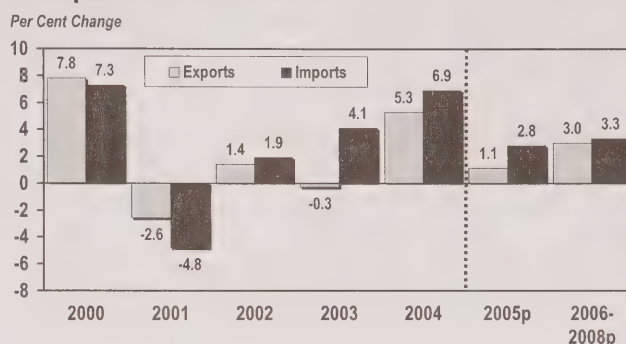
p = private-sector survey average.

Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (October 2005).

EXPORTS FACE COMPETITIVE PRESSURES

Facing the significant challenges of a high dollar and high oil prices, Ontario export volumes are expected to increase marginally in 2005, rising by only 1.1 per cent. Ontario exporters are adjusting to the higher dollar by increasing productivity, lowering input costs and shifting towards higher-value products. Over the medium term, exports are expected to strengthen, supported by rising demand in the rest of Canada, the United States and other regions of the world.

Ontario Real International and Interprovincial Trade



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The auto sector accounted for 45.3 per cent of Ontario's merchandise exports to the United States in 2004. Although U.S. auto sales in 2005 are likely to be close to last year's pace of 17.3 million units, this has required heavy incentives such as "employee discount programs," which are likely shifting sales from the near future. Private-sector forecasters expect U.S. auto sales to ease to 17 million units in 2006 and remain close to that level in 2007 and 2008. Weak profits will limit the auto industry's capacity to keep relying on incentives to sustain sales. Ontario's share of North American vehicle production has risen from 15.7 per cent in 2003 to an estimated 16.4 per cent in 2005. Over the medium term, Ontario auto exports will benefit from new production lines, including the new Toyota plant in Woodstock, which is scheduled to begin production in 2008.

Machinery and equipment exports, which accounted for 19.8 per cent of the province's merchandise exports in 2004, are up a modest 2.0 per cent so far this year, as firms face more intense international competition. As manufacturing firms adjust to the higher dollar, Ontario's machinery and equipment exports are expected to strengthen. Real business investment on machinery and equipment in the United States is projected to increase by 11.7 per cent in 2005 and 9.6 per cent in 2006.

Industrial goods and materials exports (such as iron, steel, other metals, rubber and plastics), which account for about 20 per cent of Ontario's merchandise exports, have been the strongest export category this year, up 8.1 per cent on a year-to-date basis. Overall world economic growth is strong, leading to buoyant demand for industrial materials. Increased demand for industrial goods and materials from the rest of Canada, the United States and the rest of world will contribute to strengthening Ontario exports of these products.

China and India have become growing markets for Ontario exports. Over the past four years, Ontario merchandise exports to India increased dramatically, climbing 76 per cent, followed by China (up 63 per cent), Europe (up 36 per cent) and Japan (up 12 per cent). Over the medium term, China's economy is expected to grow by over 8.0 per cent per year and India's growth is expected to be close to 7.0 per cent per year, creating opportunities for Ontario exporters to increase sales to these countries.

Other provinces and territories are also important markets for Ontario's exports. Sales to other provinces have increased from 26 per cent of total exports in 2000 to 29 per cent in 2004. Higher energy prices dampen growth in central Canada but provide a boost to the energy-producing regions in the rest of Canada. Ontario exports of goods and services to the rest of Canada are expected to grow, driven by strong demand in Western Canada.

ONTARIO'S FORESTRY SECTOR INVESTMENTS

Ontario is providing \$680 million to help the forestry sector compete in the current market and foster a new generation of jobs.

- \$350 million in loan guarantees to stimulate new investments.
- \$150 million to help lever investments in energy conservation, co-generation value-added manufacturing, improved fibre-efficiency and other areas.
- \$28 million annually to fund maintenance of primary forest access roads and help reduce delivered wood costs.
- \$10 million annually to enhance the forest resource inventory to help ensure the long-term sustainability of wood supplies.
- \$1 million annually to establish an Ontario Wood Promotion Program.
- Ministry of Natural Resources is streamlining and expediting various approval processes with respect to forestry operations.
- Ontario Power Authority is developing incentives to support co-generation, energy efficiency and renewable energy.

RESEARCH AND INNOVATION FOR ECONOMIC GROWTH

Innovation is important for enhancing productivity and economic competitiveness. Faced with rising competition and a challenging international environment, Ontario firms must continue to turn new ideas into new products and services.

Ontario provides a mix of direct funding and competitive tax incentives to encourage research to produce good ideas and to encourage commercialization and partnerships between industry and research institutions.

The McGuinty government's commitment to strengthening Ontario's economy through research and innovation has been reinforced through several major announcements:

- The 2004 Ontario Budget expanded the focus of the government's innovation programs to enhance commercialization in Ontario's public research institutions, including the \$27 million Ontario Research and Commercialization Program (ORCP) and the \$36 million Ontario Commercialization Investment Funds (OCIF) program.
- The 2005 Ontario Budget announced consolidation of major research programs totalling \$730 million, including a \$300 million investment in research infrastructure announced by Premier McGuinty in October 2004. To date, \$101.2 million of this \$300 million has been awarded through the Ontario Research Fund to 20 universities and research institutions for 360 innovation projects. This includes \$53.2 million announced on December 16, 2004 and \$48 million announced on October 28, 2005.
- Premier McGuinty announced on June 29, 2005 that he will lead a newly created Ministry of Research and Innovation to develop and drive a co-ordinated and comprehensive research and innovation agenda across all government ministries.
- The Premier described his vision for the new ministry and the creation of a new Ontario Research and Innovation Council at the opening of the Medical and Related Sciences (MaRS) centre on September 26, 2005.
- On October 7, 2005, the Premier announced a commitment of \$3.3 million over three years to support the new Toronto Region Research Alliance (TRRA).
- The October 2005 Throne Speech also noted the government's partnerships with key industry sectors such as automotive manufacturing, agriculture and forestry to enhance their competitiveness through innovation and access to export markets.

BUSINESS AND FINANCIAL SERVICES

Based on employment, business and financial services are Ontario's two largest trade-based industry clusters, followed by the automotive industry, according to the Institute for Competitiveness and Prosperity. Together they also play a key supporting role in enabling investment, competitiveness and economic growth in other Ontario industry sectors.

- Ontario is the business head-office and financial services capital of Canada. According to the *National Post*, in 2004 Ontario accounted for about half of the top 500 head offices in Canada, with Toronto accounting for almost 80 per cent of the Ontario total. Within North America, Toronto is the third-largest financial centre, behind New York and Chicago, and was number one for financial-sector job creation over the past 10 years.

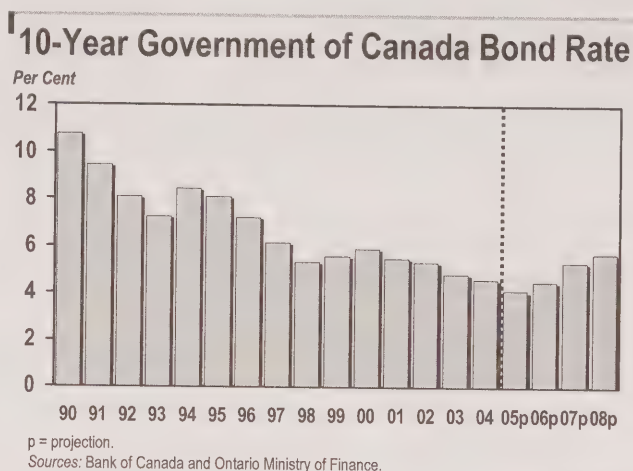
These sectors are facing growing competition from other jurisdictions in North America and globally. The continued growth of the business and financial services sectors hinges on three key competitive drivers: an efficient and effective business and financial regulatory and tax framework that helps attract business corporations and investors; the high level of professional skills and postsecondary education of its knowledge-based workers; and modern infrastructure that contributes to vibrant urban centres.

To support business competitiveness and Ontario's economic advantage, the Ontario Government:

- Is supporting skills development and postsecondary education, including \$6.2 billion for universities, colleges, training and apprentices by 2009-10.
- Reaffirmed its commitment to making Canada's securities markets more competitive and more efficient by establishing a panel to design a more detailed proposal for a common securities regulator.
- Is following through on its 2004 Budget commitment to support a new generation of economic growth by introducing a bill to replace the *Mortgage Brokers Act* in 2005 and to introduce amendments to the *Credit Union and Caisses Populaires Act, 1994*.

INTEREST RATES AND INFLATION

Over the past two months, the Bank of Canada has increased its benchmark target for the overnight interest rate by a total of half a percentage point, to 3.0 per cent. The major factor pushing the Bank of Canada to raise interest rates is its perception that the Canadian economy is operating at close to full capacity. According to the Bank of Canada's quarterly *Business Outlook Survey*, the proportion of firms expecting inflation to exceed the Bank of Canada's two per cent target rose from 64 per cent in the spring survey to 87 per cent in the autumn. It is expected that the Bank of Canada will continue to increase interest rates over the next year to contain potential inflationary pressures and prevent the rise in energy prices from becoming embedded in higher inflation expectations.



Canadian three-month treasury bill rates are expected to rise from 2.7 per cent in 2005 to 3.5 per cent in 2006 and average 4.2 per cent in 2007 and 2008. Ten-year Government of Canada bond yields are expected to increase modestly, rising from an average of 4.1 per cent in 2005 to 4.5 per cent in 2006, and an average of 5.5 per cent over the 2007 to 2008 period. This results from further tightening of monetary policy in conjunction with growing global demand for funds, including the need to finance the U.S. fiscal and current account deficits.

Since June 2004, the U.S. Federal Reserve Board has raised interest rates 11 times, bringing its key target for the federal funds rate to 3.75 per cent. Like the Bank of Canada, the Federal Reserve is concerned with the potential for higher energy costs to fuel a broader increase in other prices and to raise expectations of inflation. Short-term U.S. interest rates are currently 75 basis points above the equivalent rates in Canada. The Federal Reserve is expected to continue raising interest rates at a measured pace, implying the negative Canada-U.S. interest rate gap will persist.

CANADIAN INTEREST RATE OUTLOOK (ANNUAL PER CENT)

	2003	2004	2005p	2006p	2007p	2008p
3-month Treasury Bill Rate	2.9	2.2	2.7	3.5	4.0	4.3
10-year Government Bond Rate	4.8	4.6	4.1	4.5	5.3	5.7
Ontario CPI Inflation Rate	2.7	1.9	2.3	2.2	1.8	1.9

p = projection.

Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

The key aim of the Bank of Canada's monetary policy is to keep core inflation at two per cent, the midpoint of its one to three per cent target range. The Bank's favoured measure of core inflation (the Consumer Price Index (CPI), excluding the eight most volatile items³ and the effect of any tax changes on prices) has remained below the Bank's target rate of two per cent for 21 straight months. However, total CPI inflation in Canada rose to 3.4 per cent in September, reflecting, in large part, higher gasoline prices.

The Ontario CPI inflation rate is expected to average 2.3 per cent in 2005. Petroleum product prices have been the major contributor to inflation this year. So far this year, gasoline prices have increased 12.9 per cent and home heating fuel is up 24.2 per cent. The higher value of the Canadian dollar has lowered the cost of imported goods for consumers and businesses, helping offset upward pressure on inflation from rising energy prices. On a year-to-year basis, total Ontario CPI inflation in September was 3.3 per cent, or 1.7 per cent excluding energy. The 2006 inflation rate is projected to be 2.2 per cent. Over the 2007 to 2008 period, inflation is projected to average 1.9 per cent annually.

³ The eight most volatile items include fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products.

NORTHERN PROSPERITY

Ontario's northern region faces particular structural challenges that have resulted in slower employment growth over the past several years as well as a relatively high unemployment rate. The government is committed to helping Northern Ontario address these challenges and realize its economic potential.

The Ontario Government's initiatives to promote job creation and economic prosperity in Northern Ontario include:

- \$680 million to help the forest sector invest in and foster a new generation of forest-sector jobs.
- Implementation and expansion of the Northern Ontario Prosperity Plan. The government is making progress on a range of initiatives under the plan, such as:
 - the Northern Ontario Grow Bonds pilot program, which has raised \$13 million that will be used to provide financing for new and expanding small and medium-sized businesses in Northern Ontario;
 - the GO North Investor Program, which is working to make Northern Ontario more attractive to investment and promote innovation and growth in existing and new sectors; and
 - the 2005 Budget, which expanded the plan to include a \$15 million government investment over three years to support geological mapping that will open up the mining potential of the Far North for investments such as the recently announced De Beers diamond mine.
- Annual contributions of \$60 million to the Northern Ontario Heritage Fund Corporation (NOHFC) under its new mandate, which will focus on private-sector job creation, youth, emerging technology, energy conservation and community infrastructure.
- Over the next five years, \$1.8 billion will be invested for the rehabilitation and expansion of northern highways under the Northern Ontario Highway Strategy.
- \$215 million in low-cost loans, provided by the Ontario Strategic Infrastructure Financing Authority (OSIFA), to 39 northern communities as of September 25, 2005, to assist in renewing their local infrastructure.
- The Northern Ontario School of Medicine officially opened in September 2005. This new medical school will help to ease the doctor shortage in northern communities.
- Over the next five years, the government will be making substantial capital investments in Northern Ontario hospitals, including new expansion and service quality projects in North Bay, Sault Ste. Marie and Sudbury.
- A new approach to Aboriginal peoples, many of whom reside in Northern Ontario. The government is working on a number of initiatives to close the socioeconomic gap between Aboriginal peoples and other citizens of Ontario. This includes developing proposals to enable Aboriginal peoples to share fairly in the benefits of natural resource development.

PARTNERING WITH ONTARIO MUNICIPALITIES FOR STRONG COMMUNITIES

The government is committed to improving the quality of life for all Ontarians through the creation of strong communities and vibrant cities. Throughout the coming year, the Province will continue to work in partnership with Ontario municipalities to implement a number of its key commitments. These include the following:

- Delivering on the commitment to make two cents of the existing provincial gas tax available for public transit. Over the next five years, the total gas tax allocation across the province will be over \$1 billion. Municipalities have already received \$156 million to date.
- Providing \$656 million through the new Ontario Municipal Partnership Funding (OMPF) in 2005 — \$38 million or 6.1 per cent more than the Community Reinvestment Fund provided last year.
- Increasing the provincial share of public health funding from 50 per cent to 75 per cent of costs by 2007.
- Launching ReNew Ontario — a strategic, five-year infrastructure investment plan. Over the next five years, the government and its partners will invest more than \$30 billion in public infrastructure in Ontario. This plan includes:
 - approximately \$5 billion for health care projects, including 105 hospital projects;
 - more than \$10 billion to improve elementary and secondary schools and renew postsecondary facilities;
 - about \$11.4 billion to improve public transit, highways, borders and other transportation systems; and
 - \$900 million to renew municipal infrastructure through the Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF).
- Providing low-cost, longer-term, fixed-rate loans for infrastructure through the Ontario Strategic Infrastructure Financing Authority (OSIFA). To date, OSIFA has committed to provide up to \$2.1 billion in low-cost financing to more than 170 Ontario municipalities for 1,100 local infrastructure projects.
- Implementing a range of major initiatives that will improve quality of life by encouraging sustainable growth. These complementary initiatives include implementation of the *Places to Grow Act*, implementation of the Greenbelt Plan, introduction of Source Water Protection legislation and undertaking consultations on the second stage of Provincial Planning Reform.
- Consulting on Tax Increment Financing (TIF), to develop options for potential legislation that would encourage urban regeneration.
- Enhancing measures to support brownfield development by creating a “one-window” government access point through the Ministry of Municipal Affairs and Housing (MMAH), developing clear criteria for the removal of provincial Crown liens on brownfield properties, and simplifying some of the application requirements for the province's Brownfield Tax Incentive Program (BFTIP).
- Continued high levels of transit investment in partnership with other levels of government: \$1 billion over 10 years for GO Transit expansion and renewal, \$1 billion over five years for the Toronto Transit Commission and \$600 million for the Ottawa O-Train.
- An enhanced Canada-Ontario Affordable Housing Program that will help create over 15,000 new units of affordable housing, including housing in remote communities and supportive housing for victims of domestic violence and for persons suffering from mental illness.
- Continuing to work closely with the Association of Municipalities of Ontario (AMO). In 2004, the Province enshrined in legislation a Memorandum of Understanding (MOU) with AMO and established a tripartite protocol that includes working with the federal government as well.

ONTARIO INVESTMENTS IN AGRICULTURE

Farming is important to Ontario's economy. Ontario farmers — innovative and driven to succeed — face competitive challenges in the global marketplace.

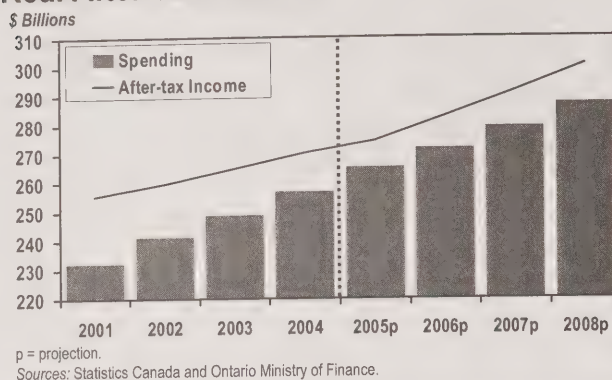
The government has undertaken a number of initiatives to help Ontario's agriculture sector:

- The \$520 million Ontario Ethanol Growth Fund and the five per cent renewable fuel standard, to encourage expansion of ethanol manufacturing in Ontario.
- More than \$170 million in support for grain and oilseed farmers.
- The \$50 million Tobacco Community Transition Fund, including \$35 million to assist tobacco growers wishing to exit the industry and \$15 million to encourage economic diversification and innovation.
- Increased funding for the Nutrient Management Financial Assistance Program and streamlining of Ontario's risk-based approach to nutrient management.
- A new model to fund municipal drainage projects through the \$6 million Agricultural Drainage Infrastructure Program.
- Up to \$25 million over three years to assist meat processors in meeting new food safety regulations.
- Establishing a new Chair in Agricultural Research at the University of Guelph.
- Equitable property tax treatment for horse farms.

HOUSEHOLD SECTOR

Over the past few years, solid job creation, strong income gains and a low interest rate environment have resulted in healthy growth in household spending. Average wages and salaries per paid worker are projected to increase by 2.9 per cent this year, contributing to an estimated 4.2 per cent rise in total personal income, compared to 3.8 per cent in 2004. The growth forecast in employment, wages and incomes supports the outlook for increasing Personal Income Tax and Employer Health Tax revenues over the forecast period.

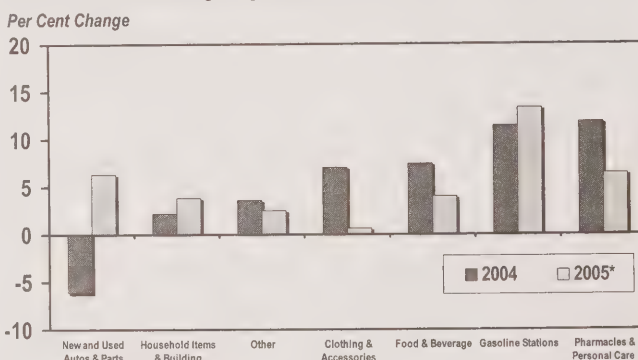
Ontario Real Consumer Spending and Real After-tax Income



Real consumer spending on goods and services rose 3.7 per cent over the first half of 2005, compared to the same period in 2004. Real consumer spending is expected to rise by 3.2 per cent in 2005, matching the pace in 2004. Consumer spending is forecast to grow by 2.9 per cent per year over the 2006 through 2008 period. The growth in consumer spending can be expected to boost Retail Sales Tax revenues over the forecast period.

While total retail sales are up 5.1 per cent over the first eight months of 2005, gas-station sales are up 13.3 per cent, reflecting higher gasoline pump prices. The higher gasoline pump prices also have had a dampening effect on household spending on discretionary items such as apparel, restaurant meals and travel.

Retail Sales by Type of Store



* For the period January to August.
Source: Statistics Canada.

Ontario's housing market has remained strong, with housing starts projected to total 78,600 units in 2005. Over the past few years, starts have averaged 82,000 units, the strongest four-year pace of homebuilding activity since 1990. For 2006, starts are expected to ease further, reaching 73,500 units, and to average 75,800 units per year in 2007 and 2008. The projected pace of new home construction is in line with underlying demographic requirements.

According to private-sector forecasters, home resales are expected to decrease 0.5 per cent in 2005, following four consecutive years of record-breaking activity, and to decline a further 4.5 per cent in 2006. House price gains are expected to moderate. Private-sector forecasters expect average resale house prices to rise 7.6 per cent in 2005 to \$263,800 and to rise 3.9 per cent in 2006 to \$274,200. Rising incomes and low mortgage rates will help keep housing affordable. Mortgage payments for an average-priced home as a share of after-tax household income are projected to rise modestly, but to remain well below levels of the late 1980s.

Consumer spending on household-related items has performed well. Over the first eight months of 2005, sales of household items and building supplies, which include furniture, electronics, home centres and garden store sales, are up 3.8 per cent compared to a gain of 2.2 per cent for the previous year.

Consumer spending growth has outpaced income growth, leading to a drop in the savings rate. The savings rate was 1.1 per cent in the second quarter of 2005 — the lowest on record. The savings rate does not adequately reflect consumers' finances because it does not include certain sources of income, such as pensions and capital gains, and does not fully capture increases in personal wealth. Rising house values have boosted household wealth, contributing to the willingness and capacity of households to increase spending and debt levels. Despite record-high debt levels, household debt costs remain low by historical standards. Low interest rates and steadily rising personal disposable incomes have contributed to the healthy position of household finances. The ratio of Canadian household debt costs to personal disposable income was 7.7 per cent in the second quarter of 2005, compared to an average of 8.1 per cent since 1980.

Mortgage Payments as a Share of After-Tax Household Income

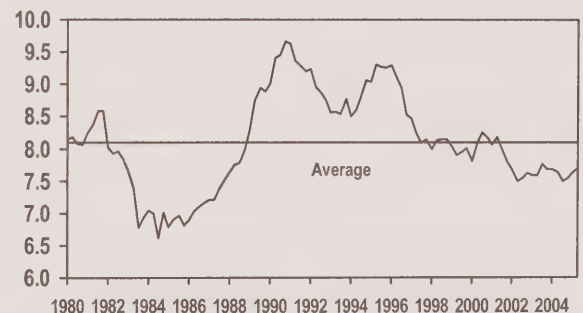


p = projection.

Sources: Bank of Canada, Canadian Real Estate Association, Statistics Canada and Ontario Ministry of Finance.

Canadian Household Debt Interest Costs

Per Cent of Personal Disposable Income



Sources: Finance Canada and Statistics Canada.

BUSINESS INVESTMENT LEADS GROWTH

The outlook for business investment in plant and equipment remains robust over the forecast horizon. Diminishing spare capacity, rising profits, healthy balance sheets and lower equipment prices are stimulating strong investment spending. Currently, both the Canadian manufacturing industries and the total industrial sector are operating at a historically high 86.7 per cent rate of capacity utilization. The corporate debt-to-

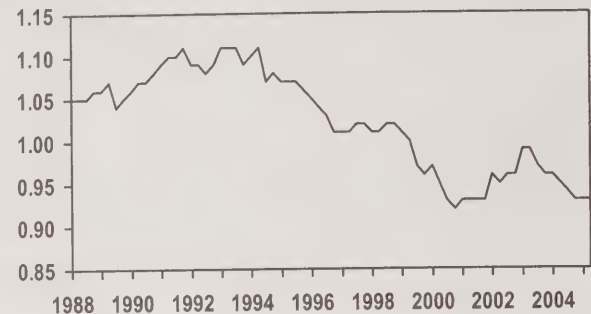
equity ratio has trended downward since the early 1990s, reflecting improved profit performance. Ontario profits are expected to grow by 5.2 per cent in 2005. Over the 2006 to 2008 period, profits are expected to increase at an annual average rate of 3.4 per cent, a slower rate than the overall economy. The Corporations Tax revenue outlook is quite prudent, given the historic volatility of corporate profits growth.

With Ontario firms importing about 60 per cent of their capital equipment, the 38 per cent appreciation of the Canadian dollar since early 2002 has substantially lowered the Canadian-dollar cost of imported machinery and equipment. This is encouraging much-needed investment in productive capital and enhancing Ontario's long-term competitiveness.

Over the past two years, real business investment in machinery and equipment has led overall economic growth, climbing a healthy 7.7 per cent in 2004, following a 9.2 per cent advance in 2003. Growth in machinery and equipment expenditures is expected to be broad based in 2005, led by the manufacturing and mining sectors. Real business investment in machinery and equipment is expected to rise by 5.2 per cent in 2005. Machinery and equipment investment is forecast to increase by 6.8 per cent in 2006, and by an average 6.2 per cent per year over the 2007 to 2008 period. After declining by 5.2 per cent in 2004, non-residential investment outlays are

Business Balance Sheets Are Strong

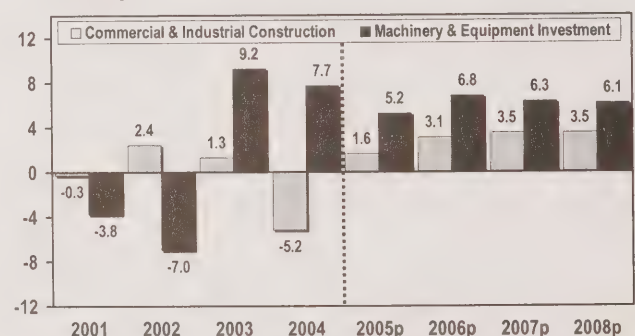
Canadian Ratio of Debt-to-Equity



Source: Statistics Canada.

Real Business Investment

Per Cent Change



p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

expected to advance 1.6 per cent in 2005, 3.1 per cent in 2006 and an average of 3.5 per cent annually over the 2007 to 2008 period.

ONTARIO'S AUTOMOTIVE-SECTOR INVESTMENTS

The Ontario Automotive Investment Strategy has been successful in attracting leading-edge investment. Agreements with General Motors, Ford, Toyota and Navistar have leveraged more than \$4.5 billion worth of investment in Ontario. Toyota is investing \$800 million to build a new plant in Woodstock, the first greenfield auto-assembly plant in Ontario in over a decade. These investments in new assembly, training and R&D will help to secure 19,200 jobs, create 1,800 jobs and also have a beneficial impact on auto-parts manufacturing.

The investments also include partnerships between General Motors and the University of Ontario Institute of Technology to open a new Automotive Centre of Excellence in Oshawa, and between Navistar and the University of Windsor to set up a new R&D centre.

ONTARIO'S ELECTRICITY-SECTOR INVESTMENTS

Substantial investments are underway to secure, expand and diversify electrical generating capacity in Ontario as well as replace the remaining coal-fired plants. The government has set the wheels in motion to add nearly 9,000 megawatts (MW) of diversified generating capacity over the near and medium terms:

- The government has already awarded contracts to add 2,350 MW of renewable and clean energy supply, representing total investments of \$2.0 billion.
- The Ontario Power Authority (OPA) recently signed an agreement under which Bruce Power has agreed to invest \$4.25 billion to refurbish and restart Bruce A Units 1 and 2, adding 1,500 MW of capacity in Ontario, as well as refurbish Bruce A Unit 3 and replace the steam generators in Unit 4.
- Ontario Power Generation (OPG) has begun work on the Niagara Tunnel project, which will increase output of the existing Sir Adam Beck Generating Complex by about 1.6 TWh per year, at a cost of about \$985 million. OPG is also returning Unit 1 of Pickering A to service (515 MW) and converting the 310 MW Thunder Bay Generating Station to use natural gas.
- The government has issued two additional requests for proposals for up to 1,200 MW of renewable energy, and the OPA has announced future initiatives totalling almost 3,000 MW.

To ensure power is delivered where it is needed, Hydro One, the company that owns the bulk of Ontario's transmission system, is currently investing in upgrades to meet growing demand and to connect new generation projects to the grid. Over the next few years, Hydro One is planning to invest \$400 million per year in transmission upgrades. Additional transmission investments may be required as other electricity supply opportunities with Ontario's neighbours are explored.

ECONOMIC OUTLOOK COMPARISON WITH G-7 COUNTRIES

Despite the challenges facing Ontario, private-sector forecasts expect the province will remain among the fastest-growing industrial jurisdictions over the 2005 to 2008 period.

According to private-sector forecasts, over the 2005 to 2006 period, real GDP growth in Ontario is projected to average 2.6 per cent a year, trailing Canada as a whole and the United States. However, during the 2007 to 2008 period, private-sector forecasters believe Ontario's prospects are brighter and expect the pace of Ontario real GDP growth to improve to an average of 3.3 per cent a year, ahead of all G-7 countries.

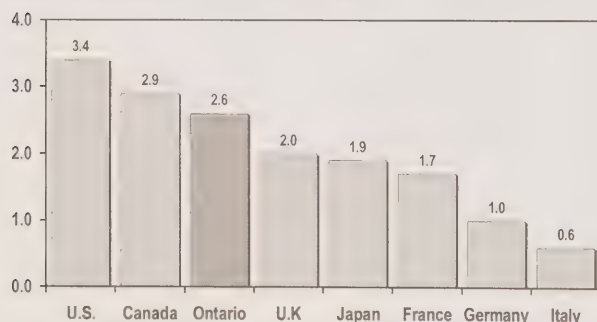
ONTARIO AND G-7 ECONOMIC OUTLOOK, 2005 TO 2008 REAL GDP GROWTH (PER CENT)

	2005	2006	2007	2008
Ontario	2.5	2.6	3.2	3.3
Canada	2.8	3.0	3.0	2.9
United States	3.5	3.3	3.2	3.2
France	1.5	1.8	2.1	2.1
United Kingdom	1.8	2.2	2.2	2.2
Germany	0.8	1.2	1.4	1.6
Italy	0.0	1.1	1.4	1.6
Japan	2.1	1.7	1.7	1.3

Sources: Consensus Forecasts (October 2005) and Ontario Ministry of Finance Survey of Forecasts (October 2005).

Ontario and G-7 Economic Growth

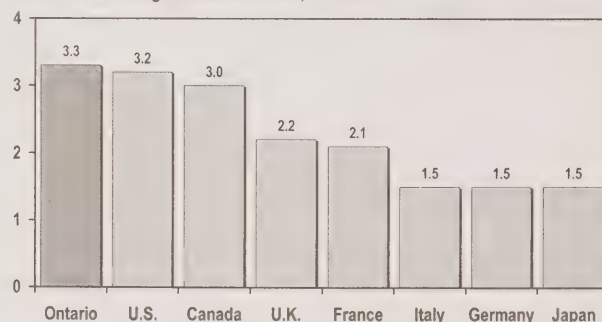
2005 to 2006 Average Real GDP Growth, Per Cent



Sources: Consensus Forecasts (October 2005) and Ontario Ministry of Finance Survey of Forecasts (October 2005).

Ontario and G-7 Economic Growth

2007 to 2008 Average Real GDP Growth, Per Cent



Sources: Consensus Forecasts (October 2005) and Ontario Ministry of Finance Survey of Forecasts (October 2005).

DETAILS OF THE ONTARIO ECONOMIC OUTLOOK

This table shows the key details of the updated economic outlook for 2005 to 2008.

THE ONTARIO ECONOMY, 2003 TO 2008 (PER CENT CHANGE)

	Actual		Projected			
	2003	2004	2005	2006	2007	2008
Real Gross Domestic Product	1.7	2.8	2.2	2.6	3.2	3.3
Personal consumption	3.2	3.2	3.2	2.5	2.9	3.2
Residential construction	3.2	4.1	0.8	-1.3	2.2	2.5
Non-residential construction	1.3	-5.2	1.6	3.1	3.5	3.5
Machinery and equipment	9.2	7.7	5.2	6.8	6.3	6.1
Exports	-0.3	5.3	1.1	2.0	3.3	3.6
Imports	4.1	6.9	2.8	2.9	3.4	3.7
Nominal Gross Domestic Product	3.3	4.7	4.1	4.5	4.8	5.0
Other Economic Indicators						
Retail sales	3.4	3.2	5.0	3.6	4.0	4.4
Housing starts (000s)	85.2	85.1	78.6	73.5	74.9	76.6
Personal income	3.0	3.8	4.2	4.2	4.7	4.7
Wages and salaries*	3.8	3.9	4.1	4.3	4.8	4.9
Corporate profits	-2.9	14.7	5.2	1.9	4.1	4.3
Consumer Price Index	2.7	1.9	2.3	2.2	1.8	1.9
Labour Market						
Employment	2.9	1.7	1.2	1.4	1.8	1.9
Job creation (000s)	173	108	77	90	117	126
Unemployment rate (per cent)	7.0	6.8	6.7	6.5	6.3	6.1

*Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

SECTION II: ONTARIO REVENUE OUTLOOK

The revenue outlook reflects the economic outlook and associated risks. Since the 2005 Ontario Budget, the economic growth outlook for 2005 has strengthened, while the outlook for 2006 and 2007 has weakened. In addition, new information on revenues from processing 2004 Personal Income Tax and Corporations Tax returns led to an increase in the 2004-05 Personal Income Tax and Corporations Tax estimates, which boosts the base upon which growth for these taxes is projected for 2005-06 and beyond.

A cautious approach has been adopted for developing the revenue outlook for 2005-06 and beyond. While economic growth in calendar-year 2005 is stronger than projected in the 2005 Budget, it is forecast to weaken towards the end of 2005 and into calendar-year 2006. As such, the 2005-06 prudent outlook assumes no further revenue increase based on economic growth. In addition, given the historic volatility of Corporations Tax, the outlook is cautious with respect to the proportion of the 2004 tax returns-based increase in Corporations Tax that is carried forward in the revenue outlook.

The medium-term revenue outlook for 2006-07 and beyond will be updated in the next Budget. At present, higher revenues from processing 2004 Personal Income Tax and Corporations Tax returns and stronger 2005 economic growth must be balanced against slower expected near-term economic growth and the risks arising from higher oil prices, interest rates and the Canadian dollar.

2005-06 REVENUE OUTLOOK

Total revenue in 2005-06 is currently projected to be \$82,132 million, an increase of \$445 million from the 2005-06 Budget Plan.

SUMMARY OF 2005-06 IN-YEAR REVENUE CHANGES SINCE BUDGET (\$ MILLIONS)

Taxation Revenue

Personal Income Tax	225	
Corporations Tax	240	
Gasoline Tax	-20	
		445

Total Revenue Changes	445
------------------------------	------------

The 2005-06 Personal Income Tax and Corporations Tax revenue outlooks have been increased by \$225 million and \$240 million respectively, due to higher revenues from processing 2004 Personal Income Tax and Corporations Tax returns.

The Gasoline Tax revenue forecast for 2005-06 has been lowered by \$20 million, due to an expected decrease in the volume of gasoline purchased as a result of higher pump prices. Ontario's Gasoline Tax is a volume-based tax. Unlike the federal government and some other provinces, Ontario sales tax does not apply to gasoline pump purchases, and therefore sales tax revenues also do not benefit from higher pump prices.

MEDIUM-TERM REVENUE OUTLOOK

MEDIUM-TERM FISCAL OUTLOOK (\$ BILLIONS)

	2005-06	2006-07	2007-08	2008-09
Revenue				
Taxation Revenue	58.2	60.6	63.4	66.7
Government of Canada	13.2	12.9	13.6	14.0
Income from Government Enterprises	4.0	4.2	4.1	4.1
Other Non-Tax Revenue	6.8	7.0	7.3	7.5
Total Revenue	82.1	84.8	88.5	92.2

Note: Numbers may not add due to rounding.

The medium-term outlook for 2006-07 to 2008-09 is unchanged from the 2005 Ontario Budget. Higher revenues from processing 2004 Personal Income Tax and Corporations Tax returns and stronger 2005 economic growth might be expected to boost the outlook over the medium term. Weaker growth in 2006 and 2007 and risks related to higher oil prices, interest rates and the Canadian dollar, however, warrant maintaining the outlook unchanged at this time.

Total revenue in 2008-09 is projected to be \$92.2 billion, an increase of \$10.1 billion over the revised 2005-06 forecast of \$82.1 billion. This represents an average annual growth rate of 3.9 per cent between 2005-06 and 2008-09.

Taxation revenue is forecast to increase by \$8.5 billion between 2005-06 and 2008-09, with annual growth averaging 4.6 per cent. This is consistent with nominal GDP average annual growth of 4.8 per cent from 2005 to 2008.

Federal Payments to Ontario are forecast to increase by \$0.8 billion between 2005-06 and 2008-09, with annual growth averaging two per cent. The forecast is based on current federal-provincial agreements, funding commitments and formulas for major health and social transfers. The decline in revenues in 2006-07 compared to 2005-06 is primarily due to the final transfer in 2005-06 from past federal Canada Health and Social Transfer Supplements and Medical Equipment Trust Funds.

Income from Government Enterprises is forecast to remain fairly flat over the medium term. The revenue increase in 2006-07 is mainly due to projected increases in Ontario Power Generation Inc. (OPG) net income arising from the government's electricity reforms, including fair and stable prices for electricity provided by OPG. The decline in revenue in 2007-08 is a result of a decline in OPG net income, which reflects the government's decision to close coal-fired generating plants. Liquor Control Board of

Ontario net income is forecast to rise over the medium term based on increasing sales. Ontario Lottery and Gaming Corporation net income is expected to remain flat over the forecast period due to continued competitive pressures on border casinos and the expected continued strength of the Canadian dollar against the U.S. dollar.

Other Non-Tax revenue is forecast to increase by \$0.7 billion between 2005-06 and 2008-09, with annual growth averaging 3.5 per cent. The increase in Other Non-Tax revenue is due primarily to projected increases in the volume of vehicle and driver licence registrations, sales of electricity purchased from non-utility generators and reimbursements in respect of ongoing increases in Provincial expenditures.

SECTION III: POTENTIAL RISKS TO PROVINCIAL REVENUES

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues comprise the largest category of Provincial revenue. Of the total \$82.1 billion in revenues forecast for 2005-06, \$58.2 billion or about 71 per cent is expected to come from taxation revenues. Three revenue sources within this category — Personal Income Tax, Retail Sales Tax and Corporations Tax — account for about 55 per cent of total revenues. Inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of any deficit-reduction plan.

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions. It should be cautioned that these estimates, while useful, are only guidelines and can vary depending on the composition and interaction of the potential risks.

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

ITEM/KEY COMPONENTS	2005-06 ASSUMPTION	2005-06 SENSITIVITIES
Total Revenues		
– Real GDP	2.2 per cent growth in 2005	\$615 million revenue change for each percentage point change in real GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
– GDP Deflator	1.9 per cent increase in 2005	
– Canadian Interest Rates	2.7 per cent three-month treasury bill rate in 2005	Between \$60 million and \$310 million revenue change in the opposite direction for each percentage point change in interest rates.
– U.S. Real GDP	3.5 per cent growth in 2005	Between \$185 million and \$430 million revenue change for each percentage point change in U.S. real GDP growth.
– Canadian Dollar Exchange Rate	82.4 cents US in 2005	Between \$25 million and \$110 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.
Total Taxation Revenues		
– Revenue Base ¹	3.3 per cent growth in 2005-06	\$550 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
– Nominal GDP	4.1 per cent growth in 2005	
Personal Income Tax Revenues		
– Revenue Base	5.1 per cent growth in 2005-06	
Key Economic Assumptions		
– Wages and Salaries	4.1 per cent growth in 2005	\$220 million revenue change for each percentage point change in wages and salaries growth.
– Employment	1.2 per cent growth in 2005	
– Unincorporated Business Income	4.0 per cent growth in 2005	
Key Revenue Assumptions		
– Net Capital Gains Income	3.9 per cent growth in 2005	\$3 million revenue change for each percentage point change in net capital gains income growth.
– RRSP Deductions	4.4 per cent growth in 2005	\$14 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

ITEM/KEY COMPONENTS	2005-06 ASSUMPTION	2005-06 SENSITIVITIES
– 2004 Tax-Year Assessments ²	\$18.9 billion	\$380 million revenue change for each percentage point change in 2004 Personal Income Tax assessments. ⁴

Retail Sales Tax Revenues

- Revenue Base 3.9 per cent growth in 2005-06

Includes:

- Taxable Household Spending 3.5 per cent growth in 2005-06
- Other Taxable Spending 4.4 per cent growth in 2005-06

Key Economic Assumptions

- Retail Sales 5.0 per cent growth in 2005
 - Nominal Consumption Expenditure 5.2 per cent growth in 2005
- \$90 million revenue change for each percentage point change in nominal consumption expenditure growth.

Corporations Tax Revenues

- Revenue Base 0.3 per cent decline in 2005-06
 - Corporate Profits 5.2 per cent growth in 2005
 - 2004-05 Tax Assessment Refunds³ \$1.1 billion payable in 2005-06
 - 2004-05 Tax Payments Upon Filing \$0.6 billion receivable in 2005-06
 - 2004-05 Tax Assessment Payments \$0.6 billion receivable in 2005-06
- \$65 million revenue change for each percentage point change in pre-tax corporate profit growth.
- \$22 million revenue change in the opposite direction for each percentage point change in 2004-05 refunds.⁴
- \$12 million revenue change for each percentage point change in 2004-05 payments upon filing or assessment payments.⁴

Employer Health Tax Revenues

- Revenue Base 3.0 per cent growth in 2005-06
 - Wages and Salaries 4.1 per cent growth in 2005
- \$30 million revenue change for each percentage point change in wages and salaries growth.

Ontario Health Premium Revenues

- Revenue Base 4.6 per cent growth in 2005-06

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

ITEM/KEY COMPONENTS	2005-06 ASSUMPTION	2005-06 SENSITIVITIES
– Personal Income	4.2 per cent growth in 2005	\$20 million revenue change for each percentage point change in personal income growth.
<hr/> Gasoline Tax Revenues		
– Revenue Base	0.4 per cent growth in 2005-06	
– Gasoline Pump Prices	93.1 cents per litre in 2005	\$5 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
<hr/> Fuel Tax Revenues		
– Revenue Base	1.0 per cent growth in 2005-06	
– Real GDP	2.2 per cent growth in 2005	\$10 million revenue change for each percentage point change in real GDP growth.
<hr/> Land Transfer Tax Revenues		
– Revenue Base	0.8 per cent growth in 2005-06	
– Housing Resales	0.5 per cent decrease in 2005	\$10 million revenue change for each percentage point change in both the number and prices of housing resales.
– Resale Prices	7.6 per cent growth in 2005	

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

ITEM/KEY COMPONENTS	2005-06 ASSUMPTION	2005-06 SENSITIVITIES
Health and Social Transfers		
– Canada-wide Revenue Base	\$27.2 billion in 2005-06	
– Ontario Revenue Share	37.3 per cent in 2005-06	
– Ontario Population Share	38.9 per cent in 2005-06	\$40 million revenue change for each tenth of a percentage point change in population share.
– Ontario Basic Federal PIT Share	44.3 per cent in 2005-06	\$10 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share.

1. Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.
2. Ontario 2004 Personal Income Tax (PIT) is a forecast estimate because 2004 tax returns are currently being assessed by the Canada Revenue Agency.
3. Corporations Tax refunds arising during 2004-05 are still an estimate because tax returns for corporate fiscal years ending in Ontario's 2004-05 fiscal year are still being assessed by the Tax Revenue Division of the Ontario Ministry of Finance.
4. Now that 2004-05 Public Accounts of Ontario have been finalized, any change in 2004 PIT assessments or 2004-05 Corporations Tax revenues will have a dual effect on 2005-06 revenues through: a) a change in the revenue base upon which this year's growth is applied, and b) a revenue adjustment applied against the current year in respect of any variance from the estimate included in the 2004-05 Public Accounts.

ANNEX II

ONTARIO'S MEDIUM-TERM FISCAL PLAN

INTRODUCTION

A key priority of the government is restoring the financial health of the Province while ensuring that key investments are being made in the areas of health care, education and skills to support a new generation of economic growth and prosperity in Ontario. These investments reflect the priorities of the government and are intended to achieve the results Ontarians want, including shorter wait times, smaller elementary class sizes, improved student achievement and modern, reliable and efficient infrastructure. This is being accomplished while continuing to address the structural deficit that this government inherited.

The government has made significant progress in restoring the financial health of the Province of Ontario. The 2005 Ontario Budget outlined a fiscal plan to balance the budget over the medium term. The government's plan is on track. The recently released 2004-05 Public Accounts reported that the Province's deficit had been reduced to \$1.6 billion in 2004-05. The 2005-06 deficit is currently forecast at \$2.4 billion, an in-year improvement of \$427 million, exceeding the deficit target expectations set out in the 2005 Budget of \$2.8 billion. The 2005-06 fiscal outlook includes a \$1.0 billion reserve, which is designed to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook. If the reserve is not required this year, the deficit is projected to be \$1.4 billion.

Notwithstanding the Province's strong fiscal performance in 2004-05 and the improved fiscal outlook for 2005-06, the fiscal outlook for 2006-07 through to 2008-09 remains unchanged from the 2005 Budget. Higher revenue in 2005-06 and stronger economic growth earlier this year must be balanced against the potential medium-term impact of slower economic growth and continued uncertainty arising from higher oil prices, interest rates, the U.S. economy and the Canadian dollar. Consistent with the medium-term fiscal plan outlined in the 2005 Budget, the 2006-07 deficit is projected at \$2.4 billion, falling to \$1.5 billion in 2007-08 and eliminated in 2008-09. If the reserve is not required in 2006-07, the deficit would fall to \$0.9 billion. The deficit would be eliminated in 2007-08 if the reserve is not required in that year.

This annex provides an overview of the following:

- **Section I:** Ontario's Medium-Term Fiscal Plan and Outlook;
- **Section II:** 2005-06 Second-Quarter Fiscal Update; and
- **Section III:** Potential Risks, Cost Drivers and Contingent Liabilities.

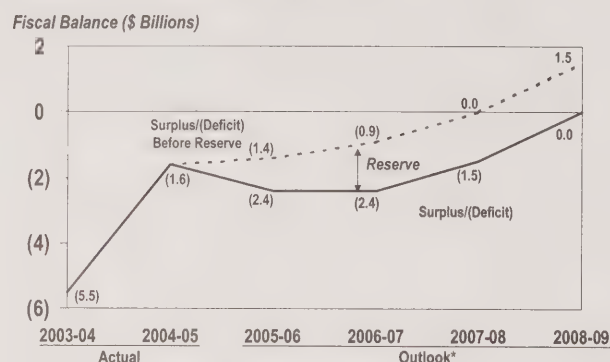
Additional information on Ontario's finances can be found in Annex V, *Fiscal Tables and Graphs*.

SECTION I: ONTARIO'S MEDIUM-TERM FISCAL PLAN AND OUTLOOK

ONTARIO'S FISCAL PLAN

In 2000-01, program spending began to grow significantly faster than taxation revenue, gradually creating the conditions for a structural deficit. The government's plan to eliminate the deficit will be achieved by transforming and modernizing government, and by holding program spending growth to less than the rate of growth in taxation revenue over the medium term.

Ontario's Fiscal Outlook



* Second-quarter fiscal forecast as at September 30, 2005.
Source: Ontario Ministry of Finance.

The Province's medium-term fiscal plan, as outlined in the 2005 Budget, is to eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Key Elements of the Fiscal Plan

The key elements of the government's fiscal plan to eliminate the deficit in a responsible way are as follows:

- A sustainable health care system that delivers high-quality, results-focused and patient-centred health care.
- Finding the remaining \$343 million of the \$750 million program review savings target for 2007-08, of which \$407 million has been identified.
- Ensuring a sustainable revenue base to support the programs and services people value.
- Maintaining cautious and prudent fiscal planning, including an annual reserve.
- Making disciplined decisions that hold the line on spending.

MEDIUM-TERM FISCAL OUTLOOK

Key Changes Since the 2005 Ontario Budget

The government's medium-term fiscal outlook, outlined in the 2005 Budget, has been updated to reflect revenue changes in 2005-06 that have materialized since the Budget (as outlined in Annex I, *Ontario's Economic and Revenue Outlook*), spending changes approved during the first two quarters of 2005-06 and updates to the Province's interest on debt forecast.

The interim deficit projection of \$3.0 billion for 2004-05 reported in the 2005 Budget has since been confirmed by the Auditor General in the Public Accounts at \$1.6 billion, due to a \$0.7 billion increase in revenue and \$0.7 billion in lower-than-expected spending. Similarly, the fiscal outlook for 2005-06 is expected to outperform on the 2005 Budget deficit projection of \$2.8 billion due to higher revenue this year. The 2005-06 deficit is currently projected at \$2.4 billion, a \$0.4 billion improvement from the 2005 Budget projection.

The following table provides an overview of the key changes to the medium-term fiscal outlook since the release of the 2005 Budget.

IMPACT OF KEY CHANGES TO THE MEDIUM-TERM DEFICIT TARGETS (\$ BILLIONS)

	Outlook*			
	2005-06	2006-07	2007-08	2008-09
Surplus/(Deficit) as per 2005 Budget	(2.8)	(2.4)	(1.5)	0.0
Key Revenue Changes Since 2005 Budget:				
2004 Tax Returns and Lower Gasoline Tax Revenues	0.4	—	—	—
Total Revenue Changes	0.4	—	—	—
Key Expense Changes Since 2005 Budget:				
Obligations Related to Retirement Benefits	0.2	—	—	—
Forest Sector Strategy Investments	—	0.1	0.1	—**
Interest on Debt Savings	(0.2)	(0.1)	(0.1)	—
Total Expense Changes	—	—	—	—
Change in Reserve	—	—	—	—
Total Changes Since 2005 Budget	0.4	—	—	—
Surplus/(Deficit)	(2.4)	(2.4)	(1.5)	0.0
Reserve	1.0	1.5	1.5	1.5
Surplus/(Deficit) If Reserve Not Required	(1.4)	(0.9)	0.0	1.5

*Second-quarter fiscal forecast as at September 30, 2005.

** Forest Sector Strategy investments total \$39 million in 2008-09.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Taking into account key revenue and expenses changes since the 2005 Budget, the fiscal outlook for 2005-06 is expected to outperform on the deficit target outlined in the 2005 Budget. Notwithstanding the Province's strong fiscal performance in 2004-05, and the improved outlook for 2005-06, the fiscal outlook between 2006-07 and 2008-09 remains unchanged from the 2005 Budget deficit targets of \$2.4 billion in 2006-07, falling to \$1.5 billion in 2007-08, and eliminated in 2008-09. If the reserve is not required in 2006-07, the deficit would fall to \$0.9 billion. The deficit would be eliminated in 2007-08 if the reserve is not required in that year.

Total revenue is higher in 2005-06 than originally projected in the 2005 Budget. However, this revenue increase and stronger economic growth earlier this year must be balanced against the potential medium-term impact of slower economic growth and continued uncertainty arising from higher oil prices, interest rates, the U.S. economy and the Canadian dollar. As a result, the medium-term revenue outlook for 2006-07 and beyond is unchanged from the 2005 Budget Plan and will be updated as necessary in the 2006 Budget.

Major revenue changes in the medium-term fiscal plan since the 2005 Budget include:

- **Personal Income Tax and Corporations Tax** revenue outlooks in 2005-06 have been increased by \$225 million and \$240 million respectively, due to higher revenues from processing 2004 Personal Income Tax and Corporations Tax returns. The Gasoline Tax revenue forecast for 2005-06 has been lowered by \$20 million, due to an expected decrease in the volume of gasoline purchased as a result of higher pump prices. Ontario's Gasoline Tax is a volume-based tax. Unlike the federal government and some other provinces, Ontario sales tax does not apply to pump purchases, and therefore sales tax revenues do not benefit from higher pump prices. The total revenue outlook from 2006-07 through to 2008-09 is unchanged.

Net total expense over the medium term remains on track with the 2005 Budget forecast. Major changes in total expenses from the 2005 Budget include:

- **An increase in expense** of \$0.2 billion in 2005-06 for benefits payable in future years, as a result of changes to various retiree supplemental health benefits.
- **Additional investments** of \$0.1 billion in 2006-07 and 2007-08 in support of the Province's \$680 million Forest Sector Strategy.
- **Lower projected interest on debt expense** of \$0.2 billion in 2005-06, and \$0.1 billion in 2006-07 and 2007-08.

The reserve remains unchanged at \$1.0 billion in 2005-06 and \$1.5 billion in 2006-07, 2007-08 and 2008-09.

Medium-Term Fiscal Plan and Outlook

Consistent with the medium-term fiscal plan outlined in the 2005 Budget, the 2006-07 deficit is projected at \$2.4 billion, falling to \$1.5 billion in 2007-08, and eliminated in 2008-09. If the reserve is not required in 2006-07, the deficit would fall to \$0.9 billion. The deficit would be eliminated in 2007-08 if the reserve is not required in that year.

The following table outlines the current medium-term fiscal plan and outlook for the Province, including details of key revenue sources and planned spending for key sectors through to 2008-09.

MEDIUM-TERM FISCAL PLAN AND OUTLOOK					
(\$ BILLIONS)					
	Actual	Outlook*			
	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue					
Taxation Revenue	56.0	58.2	60.6	63.4	66.7
Government of Canada	11.9	13.2	12.9	13.6	14.0
Income from Government Enterprises	3.6	4.0	4.2	4.1	4.1
Other Non-Tax Revenue	6.4	6.8	7.0	7.3	7.5
Total Revenue	77.8	82.1	84.8	88.5	92.2
Expense					
Programs					
Health Sector	31.0	33.0	34.6	36.0	37.4
Education (excludes Teachers' Pension Plan)	10.6	11.3	11.7	12.2	12.5
Training, Colleges and Universities	4.2	4.7	5.0	5.3	5.4
Children's and Social Services Sector	9.2	9.8	10.0	10.2	10.3
Other Programs	12.1	12.5	12.0	12.4	12.4
Total Programs	67.0	71.3	73.4	76.0	77.9
Capital	3.0	2.7	2.5	2.1	2.1
Interest on Debt	9.4	9.6	9.9	10.3	10.7
Total Expense	79.4	83.5	85.7	88.5	90.7
Surplus/(Deficit) Before Reserve	(1.6)	(1.4)	(0.9)	0.0	1.5
Reserve	—	1.0	1.5	1.5	1.5
Surplus/(Deficit)	(1.6)	(2.4)	(2.4)	(1.5)	0.0

* Second-quarter fiscal forecast as at September 30, 2005.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Revenue

Total revenue is currently forecast to increase by \$4.3 billion or 5.5 per cent in 2005-06. Between 2005-06 and 2008-09, total revenue is projected to grow at an average annual rate of 3.9 per cent, from \$82.1 billion in 2005-06 to \$92.2 billion in 2008-09. The medium-term revenue outlook for 2006-07 and beyond is unchanged from the 2005 Budget, and will be updated in the next Budget. Higher revenues from processing 2004

Personal Income Tax and Corporations Tax returns and stronger 2005 economic growth must be balanced against slower-than-expected 2006 economic growth arising from higher oil prices and the higher Canadian dollar. Details on the medium-term revenue outlook are provided in Annex I, *Ontario's Economic and Revenue Outlook*.

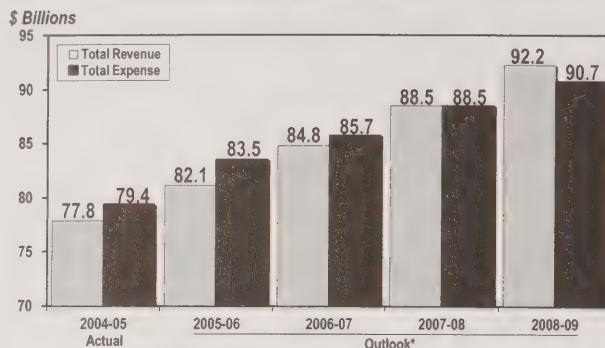
Expense

Over the medium term, total expense is expected to rise from \$83.5 billion this year to \$90.7 billion in 2008-09, an increase of \$7.2 billion. Annual growth in total expense will average 2.8 per cent over this period, down from 5.2 per cent projected for 2005-06.

In order to address the structural deficit and ensure fiscal sustainability, program spending growth over the medium term will be held to a rate below the rate of growth in taxation revenue. Current medium-term fiscal projections indicate that program spending will grow by 3.0 per cent on average each year between 2005-06 and 2008-09, much lower than the 4.6 per cent average annual growth in taxation revenue.

- **Health sector** operating spending will grow by \$2.0 billion in 2005-06. Between 2005-06 and 2008-09, health operating spending will increase by a total of \$4.4 billion. In keeping with the government's change strategy, this funding will focus on promoting wellness, providing greater access to primary and community care, and reducing wait times for MRI/CT scans, cancer care, cataract and cardiac procedures, and hip and knee replacements.
- **Education** spending will grow by \$0.8 billion in 2005-06 and by \$1.2 billion between 2005-06 and 2008-09, reflecting the government's commitment to stabilize Ontario's education system, reduce elementary class sizes and improve student achievement.

Medium-Term Total Revenue and Expense Outlook (Excludes Reserve)



* Second-quarter fiscal forecast as at September 30, 2005.

Source: Ontario Ministry of Finance.

- **Training, Colleges and Universities** will receive \$4.7 billion in 2005-06, growing to \$5.4 billion by 2008-09, to implement the Reaching Higher plan, which will increase access to quality postsecondary education and training. Under the Reaching Higher plan, \$6.2 billion in cumulative new investments will be spent on postsecondary education and training by 2009-10.
- **Children's and Social Services sector** will receive an additional \$0.6 billion in 2005-06, with a total operating budget growing to \$10.3 billion by 2008-09, mainly to implement Best Start, which is helping Ontario children arrive at school ready to learn.
- **Other Programs** spending will be maintained at approximately the 2005-06 funding level of \$12.5 billion over the medium term.

Capital expense will be \$2.7 billion in 2005-06, \$2.5 billion in 2006-07 and \$2.1 billion in 2007-08 and 2008-09. This level of capital expense, along with Provincial gas tax revenue provided to municipalities, operating grants for infrastructure renewal and expansion, cost-sharing by partners and the value of projects that will be paid for over their useful lives, will support the government's five-year, \$30 billion ReNew Ontario infrastructure investment plan. Planned levels of capital investment may be supplemented from the proceeds of strategic asset management initiatives.

Interest on debt costs are forecast to grow by \$1.1 billion between 2005-06 and 2008-09, reflecting the government's deficit-reduction targets and interest rates that are forecast to increase from historically low levels. In 2005-06, interest on debt costs will amount to roughly 12 per cent of total Provincial revenue and remain there throughout the medium term.

Fiscal Prudence

In addition to applying a disciplined approach to balancing strategic investments in key priority areas with a plan to eliminate the deficit, the government's medium-term fiscal plan also includes prudence in recognition of the risks inherent in any fiscal and economic forecast.

The government's medium-term fiscal plan includes reserves of \$1.5 billion in 2006-07 and beyond to protect against unforeseen and adverse changes in the economic and fiscal outlook. These reserves are \$0.5 billion higher than the \$1.0 billion reserve included in 2005-06 to better reflect the risks and uncertain nature of medium-term fiscal projections. These reserves are over and above the prudence built into the economic outlook on which the revenue projections for the Province are based.

Consistent with the principles of increased fiscal transparency and accountability, the government provides quarterly fiscal and economic updates using the best available information. Given the external forces affecting the Province's economic and fiscal performance, there will be changes in revenues and expenses throughout the year as new information becomes available and the government responds to key events affecting the people of Ontario.

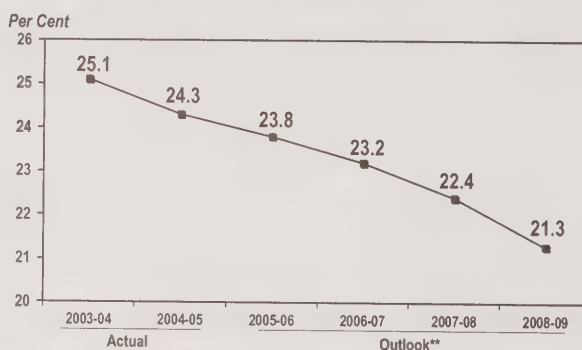
Maintaining a Prudent Debt-to-GDP Ratio

Another key component of the government's medium-term fiscal plan is the commitment to maintain a prudent level of Provincial debt (defined as accumulated deficit) relative to the size of Ontario's economy as measured by nominal gross domestic product (GDP). Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges "crowd out" funds available for spending on

government priorities. Responsible fiscal management, therefore, needs to be long term and intergenerational in focus to ensure that future generations are not burdened with the cost of current overconsumption or inefficient delivery of government services.

Consistent with the medium-term fiscal outlook, the Province's debt-to-GDP ratio is projected to decline from 25.1 per cent in 2003-04 to 23.8 per cent this year and 21.3 per cent by 2008-09. By achieving the 2008-09 target, the government will have reduced the Province's debt-to-GDP ratio to its lowest level in 17 years.

Projected Debt-to-GDP Ratio*



* Debt is defined as accumulated deficit.

** Second-quarter fiscal forecast as at September 30, 2005.

Source: Ontario Ministry of Finance.

SECTION II: 2005-06 SECOND-QUARTER FISCAL UPDATE

2005-06 FISCAL SUMMARY

The 2005 Budget Plan projected a deficit of \$2,796 million for 2005-06. As at September 30, 2005, a deficit of \$2,369 million is projected for 2005-06, an in-year improvement of \$427 million from the deficit projected in the 2005 Budget. Additional information on Ontario's finances can be found in Annex V, *Fiscal Tables and Graphs*.

2005-06 FISCAL OUTLOOK (\$ MILLIONS)

	Budget Plan 2005-06	Outlook* 2005-06	In-Year Change
Revenue	81,687	82,132	445
Expense			
Programs	71,014	71,257	243
Capital	2,673	2,673	—
Interest on Debt	9,796	9,571	(225)
Total Expense	83,483	83,501	18
Surplus / (Deficit) Before Reserve	(1,796)	(1,369)	427
Reserve	1,000	1,000	—
Surplus / (Deficit)	(2,796)	(2,369)	427

* Second-quarter fiscal forecast as at September 30, 2005.

Source: Ontario Ministry of Finance.

Taking into account key revenue and expense changes since the 2005 Budget, the fiscal outlook for 2005-06 is expected to overachieve the deficit target originally set out in the 2005 Budget.

Total revenue for 2005-06 is projected at \$82,132 million, a net increase of \$445 million from the 2005 Budget Plan mainly due to higher than projected Personal Income Tax and Corporations Tax revenue. These revenue changes are discussed further in Annex I, *Ontario's Economic and Revenue Outlook*.

Total expense is projected to increase to \$83,501 million, up a net \$18 million from the 2005 Budget Plan. This is mainly due to an in-year increase of \$221 million related to

obligations for retirement benefits, \$28 million for the Forest Sector Strategy, and \$225 million in interest on debt savings.

The reserve, included to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook, is unchanged at \$1.0 billion. Any portion of the reserve not required at year-end will be used to reduce the deficit.

**SUMMARY OF IN-YEAR OPERATING EXPENSE CHANGES SINCE BUDGET
(\$ MILLIONS)**

	In-Year Change
Operating Expense Changes This Quarter:*	
Ministry of Government Services – retirement benefits	221
Ministry of Intergovernmental Affairs – disaster relief	1
Ministry of Natural Resources – additional forest fire fighting costs	64
Ministry of Natural Resources – Forest Sector Strategy	28
Secretariat for Aboriginal Affairs – Algonquin land claim negotiation funding	1
Ministry of Finance – Contingency Fund Offsets	(72)
Interest on Debt – savings	(225)
Total Operating Expense Changes This Quarter	18
Net Operating Expense Changes Reported in First Quarter Ontario Finances	–
Total Operating Expense Changes Since Budget	18

* Second-quarter fiscal forecast as at September 30, 2005.

- Retirement benefits expense increased \$221 million for benefits payable in future years, as a result of changes to various retiree supplemental health benefits.
- A \$1 million contribution to the International Federation of Red Cross and Red Crescent Societies was provided in-year for relief to victims of the South Asian earthquake through the International Disaster Relief Fund, fully offset from the Contingency Fund.
- An additional \$64 million was provided in-year for higher-than-anticipated forest fire fighting costs this past summer, fully offset from the Contingency Fund.
- An in-year increase of \$28 million was provided for the maintenance of primary forest access roads, as part of the Forest Sector Strategy, partially offset from the Contingency Fund.

- An additional \$1 million was approved in-year to support the continued negotiation process towards a settlement agreement for the Algonquin land claim, fully offset from the Contingency Fund.
- Savings of \$225 million in interest on debt costs as a result of cost-effective debt management and lower-than-forecast long-term interest rates.

SUMMARY OF IN-YEAR CAPITAL EXPENSE CHANGES SINCE BUDGET (\$ MILLIONS)

	In-Year Change
Capital Expense Changes This Quarter:*	
Ministry of Northern Development and Mines – change in accounting treatment for northern highways	(157)
Ministry of Transportation – change in accounting treatment for northern highways	157
Ministry of Transportation – net increase in the Ontario Transit Vehicle Program	58
Offset from the Capital Contingency Fund	(58)
Total Capital Expense Changes This Quarter	–
Net Capital Expense Changes Reported in First Quarter Ontario Finances	–
Total Capital Expense Changes Since Budget	–

* Second-quarter fiscal forecast as at September 30, 2005.

- Decreased expense in the Ministry of Northern Development and Mines of \$157 million in-year, and a corresponding increase in the Ministry of Transportation expense, reflecting the change in accounting treatment introduced in the 2004-05 Public Accounts, to disclose spending on northern highways in the ministry that carries out these activities.
- A net increase of \$58 million, fully offset from the Capital Contingency Fund, in the Ontario Transit Vehicle Program this year to support the renewal of municipal transit fleets.

SECTION III: POTENTIAL RISKS, COST DRIVERS AND CONTINGENT LIABILITIES

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes affecting expenses.

Details on revenue risks can be found in Annex I, *Ontario's Economic and Revenue Outlook*.

EXPENSE RISKS AND SENSITIVITIES

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on averages for program areas and might change, depending on the nature and composition of the potential risk.

SELECTED EXPENSE RISKS AND SENSITIVITIES

Program/Sector	2005-06 Assumption*	2005-06 Sensitivities
Health Sector	Annual growth of 6.4 per cent.	One per cent change in health spending: \$330 million.
Hospitals	Annual growth of 4.7 per cent.	One per cent change in hospital funding: \$120 million.
Drug Programs	Annual growth of 15.9 per cent (seniors).	One per cent change in utilization of all drug programs: \$36 million (seniors and social assistance recipients).
Long-Term Care Homes	More than 74,000 long-term care home beds.	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is \$36,000. One per cent change in number of beds: \$27 million.
Home Care	Over 15.5 million hours of homemaking and support services; 8.5 million nursing and professional visits.	One per cent change in hours of homemaking and support services: \$4 million. One per cent change in nursing and professional visits: \$6 million.
Elementary and Secondary Schools	Almost two million average daily pupil enrolment.	One per cent enrolment change: \$170 million.
University Students	308,000 full-time undergraduate students.	One per cent enrolment change: \$22 million.
Ontario Works**	194,000 average annual caseload.	One per cent caseload change: \$15 million.
College Students	151,000 full-time students.	One per cent enrolment change: \$7 million.
Interest on Debt	Average cost of borrowing is forecast to be approximately 5.4 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately \$250 million.

SELECTED EXPENSE RISKS AND SENSITIVITIES

Program/Sector	2005-06 Assumption*	2005-06 Sensitivities
Ontario Disability Support Program**	226,000 average annual caseload.	One per cent caseload change: \$23 million.
Correctional System	2.8 million adult inmate days per year.	Average cost \$162 per inmate per day. One per cent change in inmate days: \$5 million.

* Second-quarter fiscal forecast as at September 30, 2005.

** Based on 2004-05.

COMPENSATION COSTS

Compensation costs and wage settlements are key cost drivers and have a substantial impact on the finances of both the broader public-sector partners and the Province.

SECTOR	COST OF 1% SALARY INCREASE	SIZE OF SECTOR
OHIP Payments to Physicians*	\$70 million	Almost 22,000 physicians in Ontario, composed of approximately 10,800 family doctors and 11,000 specialists.
Hospital Nurses**	\$34 million	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff***	\$121 million	Over 190,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service†	\$50 million	Over 64,000 public servants.

* Based on 2005-06.

** Based on 2003-04.

*** One per cent increase in salary benchmarks in Grants for Student Needs based on 2005-06 school year.

† Based on 2004-05, reflects total compensation costs.

CONTINGENT LIABILITIES

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and that can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities as disclosed in the 2004-05 Annual Report and Consolidated Financial Statements are described below.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used fuel waste management fund. The Province has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to \$1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

The Province provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2005 was \$3.9 billion. The outstanding loans guaranteed and other contingencies amounted to \$3.2 billion at March 31, 2005. A provision of \$409 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the 2004-05 Annual Report and Consolidated Financial Statements of the Province.

Social Housing—Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 31, 2005, there were \$8.8 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2005, there were 82 claims outstanding against the Crown that were for amounts over \$50 million.

CONCLUSION

The 2005 Ontario Budget outlined a plan to eliminate the deficit over the medium term while maintaining key investments in the areas of health care, education and skills to support a new generation of economic growth and prosperity in Ontario.

The government remains committed to strong financial management and will be focused and disciplined in keeping program spending under control. Reserves are included to protect against unforeseen and adverse changes in the economic and fiscal outlook.

The government is on track to achieve its fiscal targets. This Economic Outlook and Fiscal Review now projects the 2005-06 deficit to be \$2.4 billion, an improvement of \$0.4 billion from the \$2.8 billion deficit projected in the 2005 Budget. If the reserve is not required by year-end, the deficit is projected to be \$1.4 billion. Over the medium term, the Province remains on track to eliminate the deficit no later than 2008-09. The budget will be balanced a year earlier, if the reserve is not required in 2007-08.

Further fiscal and financial information can be found in Annex V, *Fiscal Tables and Graphs*.

ANNEX III

| TRANSPARENCY IN TAXATION

INTRODUCTION

The enactment of the *Fiscal Transparency and Accountability Act, 2004*, represents a major commitment of the Ontario Government to be more open and accountable. Under Section 6 of the Act, the Minister of Finance is required to release a mid-year review of the fiscal plan on or before November 15 of each year, which must include information about the estimated cost of expenditures made through the tax system.

Tax expenditure reporting is an important element of improved fiscal transparency and accountability. This report is the first such annual compilation of the estimated cost of Ontario tax provisions under this legislation.

Many other jurisdictions have published tax expenditure reports including several other Canadian provinces, the federal government, a number of Organisation for Economic Co-operation and Development member countries, as well as U.S. states.

STRUCTURE OF REPORT

This report provides estimates with respect to provisions in the following taxes:

- Personal Income Tax
- Corporate Tax
- Sales and Commodity Tax
- Education Property Tax
- Employer Health Tax
- Estate Administration Tax
- Gross Revenue Charge

Estimates of the revenue foregone in 2005 are presented in tables followed by a brief description of each tax provision. These descriptions are intended to provide a basic understanding of the provision and do not replace the relevant legislation or regulations.

There is no universally agreed-upon definition of a “tax expenditure.” This report takes a broad approach by listing estimates of revenue foregone under the current tax system for a wide range of tax provisions.

Personal and corporate income tax expenditures identified in this report include tax expenditures shared with the federal government and Ontario-only tax expenditures.

Under a tax collection agreement between Ontario and Canada, the federal government determines the personal income tax base. Ontario has limited policy control over the individual components of taxable income and the associated tax expenditures related to the federally defined tax base.

Ontario currently collects and administers its own corporate income tax.¹ However, to reduce tax complexity and compliance costs, Ontario generally parallels federal corporate income tax measures. Ontario-only tax expenditures are measures that fall solely within Ontario’s jurisdiction.

METHOD

The estimates in this report have been developed using the latest available taxation or economic data, forecast to the 2005 calendar year. The data used to estimate the value of the tax provisions come from a variety of sources. Revisions to the underlying data, as well as improvements to the estimation method, may result in changes to the value of a given tax expenditure in future publications. In addition, some tax measures are particularly sensitive to economic conditions or other variables and could fluctuate significantly from year to year.

The amount of revenue foregone was estimated by recalculating revenues assuming the elimination of the measure in question and applying appropriate projections to estimate the 2005 calendar-year impact. The difference between actual revenues and the recalculated figure provides the estimate of the value of the tax provision. Specific data sources and other information are noted at the end of each table.

¹ Ontario is currently negotiating with the federal government an agreement under which the federal government would collect and administer Ontario’s corporate income tax.

The estimates presented in this report are not intended to represent the potential revenue gain for Ontario if the tax provisions were not in place. Each estimate has been determined separately and in isolation of other factors, such as the economic impact of any change; behavioural responses; the interaction among various tax provisions; or any modifications in policy that might reasonably accompany the change. In addition, the estimates cannot be added together to determine the total cost of a particular group of tax expenditures or of all measures combined, given the inter-related nature of the tax system.

Tax expenditure estimates that are less than \$1 million are denoted by the letter “s” (small). This report also includes tax provisions for which estimates are not available. Inclusion of such items is similar to the approach taken in other jurisdictions and is warranted given that this report is designed to ensure greater accountability and transparency.

Future annual reports will continue to refine Ontario’s tax expenditure estimates.

PERSONAL INCOME TAX

Table 1 provides estimates of tax provisions relating to the Ontario Personal Income Tax system. Business deductions listed here are for unincorporated businesses.

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
Ontario Non-refundable Tax Credits	
Adoption Expense Credit ³	1
Age Credit	230
Amounts Transferred from Spouse	40
Basic Personal Credit	3,935
Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) Contributions Credit	445
Caregiver Credit	10
Charitable Donations Credit	465
Disability Credit	75
Eligible Dependant Credit	95
Employment Insurance (EI) Premiums Credit	190
Infirm Dependant Credit	1
Medical Expense Credit	105
Ontario Overseas Employment Tax Credit	6
Pension Income Credit	85
Spouse or Common-law Partner Credit	215
Student Loan Interest Credit	10
Tuition Fee and Education Credits	215
ONTARIO TAX REDUCTION (OTR)	
OTR — Basic Reduction	130
OTR — Reduction for Dependent Children Under 19	180
OTR — Reduction for Disabled or Infirm Dependents	7
OTR — Total ⁴	255
Ontario Tax Credits⁵	
Ontario Focused Flow-through Share Tax Credit	2
Ontario Political Contributions Tax Credit	5
ONTARIO PROPERTY AND SALES TAX CREDITS (OPSTCs)	
OPSTCs — Non-seniors	460
OPSTCs — Seniors ⁶	515
OPSTCs — Total ⁶	975

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
ONTARIO LABOUR SPONSORED INVESTMENT FUND AND EMPLOYEE OWNERSHIP TAX CREDITS	
Employee Ownership (EO) Tax Credit	s
Labour Sponsored Investment Fund (LSIF) Tax Credit	30
Research-oriented Investment Fund (ROIF) Tax Credit	2
Exemptions, Deductions and Deferrals Shared with the Federal Government	
BUSINESS	
<i>Items for Which an Estimate Is Not Available</i>	
Assistance for Artists and Deduction for Canadian Art Purchased by Unincorporated Businesses	
Assistance for Prospectors and Grubstakers	
Deduction of Accelerated Capital Cost Allowance	
Deferral Through Use of Billed-basis Accounting by Professionals	
EMPLOYMENT	
Deduction for Clergy Residence	15
Deduction of Home Relocation Loans	s
Deduction of Other Employment Expenses	240
Deduction of Union and Professional Dues	115
Employee Stock Options	130
Moving Expense Deduction	15
Northern Residents' Deductions	1
<i>Items for Which an Estimate Is Not Available</i>	
Deduction for Apprentice Vehicle Mechanics' Tools	
Deduction for Artists and Musicians	
Deduction for Military and Police Deployed to High-risk International Missions	
Deduction for Tuition Assistance for Adult Basic Education	
Deferral of Salary Through Leave of Absence/Sabbatical Plans	
Employee Benefit Plans	
Non-taxation of Allowances to Public Officials	
Non-taxation of Business-paid Health and Dental Benefits	
Non-taxation of Certain Non-monetary Employment Benefits	
Special Tax Computations for Certain Retroactive Lump-sum Payments	
FARMING AND FISHING	
<i>Items for Which an Estimate Is Not Available</i>	
Cash-basis and Flexibility in Inventory Accounting	
Deduction of Farm Losses for Part-time Farmers	

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
Deferral of Income for Farmers	
Net Income Stabilization Account for Farmers	
INVESTMENT	
\$500,000 Lifetime Capital Gains Exemption for Farm Property and Small Business Shares	130
Deduction of Allowable Business Investment Losses	10
Deduction of Carrying Charges Incurred to Earn Income	250
Deduction of Resource-related Expenditures	40
Partial Inclusion of Capital Gains	305
<i>Items for Which an Estimate Is Not Available</i>	
Capital Gains Exemptions — \$1,000 on Personal-use Property and \$200 on Foreign Exchange Transactions	
Deduction of Limited Partnership Losses	
Deferral of Capital Gains Through Five-year Reserve	
Deferral of Capital Gains Through Rollovers	
Deferral of Capital Gains Through 10-year Reserve for Farm Property and Small Business Shares	
Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust	
Non-taxation of Capital Gains on Principal Residences	
Reduced Inclusion Rate for Capital Gains Arising from Certain Donations	
Taxation of Capital Gains Upon Realization	
NON-TAXABLE INCOME	
Guaranteed Income Supplement and Allowance Benefits	25
Social Assistance Benefits	20
Workers' Compensation Benefits	155
<i>Items for Which an Estimate Is Not Available</i>	
Certain Federal Government Pensions and Allowances	
Damages With Respect to Personal Injury or Death	
Death Benefits of Up to \$10,000	
Employer-paid CPP/QPP Contributions and EI Premiums	
Gifts and Bequests	
Income of Indians on Reserves	
Income from the Office of the Governor General and Allowances for Diplomats and Other Government Employees Posted Abroad	
Investment Income on Life Insurance Policies	
Lottery and Gambling Winnings	
Strike Pay	

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
SPECIAL CIRCUMSTANCES	
Child Care Expense Deduction	135
Treatment of Alimony, Maintenance and Child Support Payments	55
<i>Items for Which an Estimate Is Not Available</i>	
Deduction Related to Vows of Perpetual Poverty	
Disability Supports Deduction	
Partial Exemption of Scholarship, Fellowship and Bursary Income	
Tax-free Amount for Emergency Service Volunteers	
TAX-DEFERRED SAVINGS	
Registered Pension Plans (RPPs) — Deduction for Contributions	505
Registered Retirement Savings Plan (RRSPs) — Deduction for Contributions	1,755
<i>Items for Which an Estimate Is Not Available</i>	
Deferred Profit-sharing Plans	
Registered Education Savings Plans (RESPs)	
RPPs and RRSPs — Non-taxation of Investment Income	

Endnotes:

1. Estimates do not include the impact of revenue foregone from personal income tax provisions for trusts, which are taxed as individuals under the *Income Tax Act*.
2. Estimates are based on 2002 tax-filer data forecast to represent the 2005 taxation year, unless otherwise noted. The tax-filer data include only those returns assessed within one year of the taxation year.
3. Estimate is based on federal estimates.
4. This total is less than the sum of the OTR components due to their interaction.
5. Estimates are based on preliminary 2004 tax assessment information unless otherwise noted, adjusted to reflect the assessments for the balance of the processing year and forecast to represent the 2005 taxation year.
6. Estimate is based on (5) above and the enrichment proposed in the 2005 Ontario Budget.

PERSONAL INCOME TAX — DESCRIPTION OF TAX PROVISIONS

Ontario Non-refundable Tax Credits

Adoption Expense Credit — The 2005 Ontario Budget proposed a non-refundable tax credit equal to 6.05% of eligible adoption expenses of up to \$10,000.

Age Credit — Tax-filers aged 65 and over are entitled to a claim of 6.05% of \$4,002. The base amount is reduced by the lesser of \$4,002 and 15% of the individual's net income in excess of \$29,793. Any unused portion may be transferred to a supporting spouse or common-law partner.

Amounts Transferred from Spouse — The unused portions of the age credit, pension income credit, disability credit, and education and tuition fee amounts may be transferred to a supporting spouse or common-law partner.

Basic Personal Credit — Tax-filers are entitled to claim a basic personal credit of 6.05% of \$8,196.

Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) Contributions Credit — Tax-filers are entitled to claim 6.05% of their CPP and QPP contributions.

Caregiver Credit — Tax-filers who reside with and are responsible for the in-home care of an infirm, dependent relative or an elderly parent/grandparent (including in-laws) can claim a credit equal to 6.05% of \$3,863 less the amount by which the dependant's net income for the year exceeds \$13,218.

Charitable Donations Credit — Tax-filers can claim 6.05% of the first \$200 of charitable donations and gifts and 11.16% of donations and gifts in excess of \$200.

Disability Credit — Tax-filers who have a severe and prolonged mental or physical impairment causing a marked restriction in basic activities of daily living may claim a credit equal to 6.05% of \$6,622. Any unused amount may be transferred to a supporting relative.

Eligible Dependant Credit — Tax-filers who qualify to claim an eligible dependant are entitled to a claim of 6.05% of \$6,960. The base amount is reduced by the amount of the eligible dependant's net income in excess of \$696 but less than \$7,656.

Employment Insurance (EI) Premiums Credit — Tax-filers are entitled to claim 6.05% of their EI premiums.

Infirm Dependant Credit — The amount that a tax-filer can claim for an infirm dependant is 6.05% of \$3,863 less the amount by which the dependant's net income exceeds \$5,492.

Medical Expense Credit — A credit for non-reimbursed medical expenses, including those incurred on behalf of a tax-filer's spouse or common-law partner or minor children, may be claimed by tax-filers. Generally, the credit is 6.05% of eligible expenses in excess of the lesser of \$1,856 and 3% of the individual's net income for the year. In addition, up to \$5,095 of qualifying medical expenses paid on behalf of other dependent relatives, which the 2005 Ontario Budget proposes to increase to \$10,000, may be claimed to the extent that they exceed the lesser of \$1,856 and 3% of the dependant's net income.

Ontario Overseas Employment Tax Credit — A tax credit is available to eligible employees working abroad for more than six months in connection with certain resource projects or construction, installation, agricultural or engineering activities.

Pension Income Credit — A 6.05% tax credit on up to \$1,133 of eligible pension income may be claimed by qualified tax-filers. Any unused portion may be transferred to a supporting spouse or common-law partner.

Spouse or Common-law Partner Credit — Tax-filers who are married or have common-law partners are entitled to a claim of 6.05% of the lesser of \$6,960 and the spouse's or common-law partner's net income deducted from \$7,656.

Student Loan Interest Credit — A 6.05% tax credit on the interest portion of student loan payments made in a year may be claimed in the year in which it is paid or in any of the subsequent five years. The credit is available with respect to payments under the Canada Student Loan Program and similar provincial programs.

Tuition Fee and Education Credits — Students may claim a credit of 6.05% of eligible tuition fees and another credit of 6.05% of \$441 (for full time) or \$132 (for part time) for each month of enrolment at a qualifying postsecondary institution. The unused portions of the tuition fee and education amounts may be transferred to a supporting spouse or common-law partner, parent or grandparent. The maximum transfer from a student for the two amounts combined is \$5,667. To the extent that students do not claim or transfer all their tuition fee and education credits in the year, the unused amounts can be carried forward indefinitely for their own use in a future year.

ONTARIO TAX REDUCTION

Ontario Tax Reduction (OTR) — This program eliminates or reduces Ontario personal income tax otherwise payable by tax-filers with low and moderate incomes. All Ontario tax-filers can claim a basic exemption plus a supplementary amount for

each dependent child aged 18 or under and each disabled or infirm dependant. An individual with Ontario tax of less than the sum of these amounts pays no Ontario tax.

Ontario Tax Credits

Ontario Focused Flow-through Share Tax Credit — To improve access to capital for mining exploration companies and stimulate mineral exploration in Ontario, individual shareholders can claim a 5% refundable credit on eligible investments.

Ontario Political Contributions Tax Credit — Contributions to registered Ontario political parties as well as to their candidates and associations are eligible for a tax credit of 75% of the first \$336, 50% of the next \$784 and 33.3% of the next \$1,428. A contribution of \$2,548 or more results in a credit of \$1,120.

Ontario Property and Sales Tax Credits (OPSTCs) — The Property Tax Credit is the lesser of occupancy cost and a basic property tax credit amount plus 10% of occupancy cost. Occupancy cost is property tax or 20% of rent paid on an individual's or couple's principal residence plus \$25 if residing in a college residence. The basic property tax credit amount is \$250 for non-senior individuals or couples and \$625 for senior individuals or couples. The Sales Tax Credit is \$100 for an individual plus \$100 for a spouse or common-law partner and \$50 for each dependent child aged 18 or under. The credits for non-seniors are jointly reduced by 2% of family net income in excess of \$4,000; the credits for seniors are jointly reduced by 4% of family net income in excess of \$22,000, which the 2005 Ontario Budget proposes to increase for senior couples. The maximum OPSTCs are \$1,000 for non-seniors and \$1,125 for seniors. The estimate includes the proposed increase to the income threshold for senior couples, which is expected to be \$22,250 for 2005.

ONTARIO LABOUR SPONSORED INVESTMENT FUND AND EMPLOYEE OWNERSHIP TAX CREDITS

Employee Ownership (EO) Tax Credit — A tax credit is available to individual employee investors based on a maximum lifetime investment of \$150,000 in the EO corporation.

Labour Sponsored Investment Fund (LSIF) Tax Credit — LSIFs are venture capital corporations designed to provide alternative sources of capital to small and medium-sized Ontario businesses. A tax credit of 15%, to a maximum of \$750, is available to eligible investors. On September 30, 2005, it was announced that the LSIF tax credit would be phased out and eliminated after 2010.

Research-oriented Investment Fund (ROIF) Tax Credit — In addition to the LSIF credit, a tax credit of 5%, to a maximum of \$250, is available to eligible investors where the LSIF qualifies as a Research-oriented Investment Fund. As with the LSIF credit, the ROIF tax credit would also be eliminated after 2010.

Exemptions, Deductions and Deferrals Shared with the Federal Government

BUSINESS

Items for Which an Estimate Is Not Available

Assistance for Artists and Deduction for Canadian Art Purchased by

Unincorporated Businesses — Canadian art acquired by businesses for display in an office may be depreciated on a 20% declining-balance basis even though Canadian art may depreciate at a much slower rate (and, in some cases, may appreciate). Artists may deduct the costs of creating a work of art in the year the costs are incurred rather than in the year the work of art is sold.

Assistance for Prospectors and Grubstakers — Where a prospector or grubstaker disposes of mining property to a corporation in exchange for shares in that corporation, the tax liability is deferred until the subsequent disposition of the shares.

Deduction of Accelerated Capital Cost Allowance — The depreciation allowable for tax purposes is called capital cost allowance. A tax deferral may be created when tax deductions in the early years of the life of an asset exceed the actual depreciation in the value of the asset. The difference is captured over time or upon subsequent disposition of the asset.

Deferral Through Use of Billed-basis Accounting by Professionals — In computing their income for tax purposes, professionals are allowed to elect either an accrual or billed-basis accounting method. Under the latter method, the costs of work in progress can be written off as incurred even though the associated revenues are not brought into income until the bill is paid or becomes receivable. This treatment gives rise to a deferral of tax.

EMPLOYMENT

Deduction for Clergy Residence — A full-time member of the clergy or a regular minister of a religious denomination may deduct housing costs from income for tax purposes. Where a member of the clergy is supplied living accommodation by his or her employer or receives housing allowances, an offsetting deduction may be claimed to the extent that this benefit is included in income.

Deduction of Home Relocation Loans — An offsetting deduction from taxable income is provided for the benefit received by an employee with respect to a home relocation loan. The amount of the deduction is the lesser of the amount included in income as a taxable benefit, and the amount of the benefit that would arise with respect to a five-year, interest-free loan of \$25,000.

Deduction of Other Employment Expenses — Employees generally cannot deduct work-related expenses. However, specific employment expenses (e.g., automobile

expenses, cost of meals and lodging for certain transport employees, legal expenses paid to collect salary) are deductible in certain circumstances in the computation of income.

Deduction of Union and Professional Dues — Annual union, professional or like dues are deductible from income.

Employee Stock Options — Provided certain conditions are met, an employee of a corporation or Canadian mutual fund is allowed to deduct from net income a portion of the stock (or mutual fund unit) option benefit included in calculating employment income. In 2005, the deductible portion of the benefit is one-half.

Moving Expense Deduction — A deduction may be made for eligible moving expenses if the tax-filer changes residences within Canada and moves at least 40 kilometres closer to a new job, business location or postsecondary institution where the individual will engage in full-time schooling. The estimates do not include non-taxable reimbursements received from employers.

Northern Residents' Deductions - To offset the relatively higher cost of living and travelling in the North, individuals living in a qualifying remote location in Canada for a continuous period of at least six months may claim certain deductions from income.

Items for Which an Estimate Is Not Available

Deduction for Apprentice Vehicle Mechanics' Tools — Registered apprentice vehicle mechanics may deduct from their apprenticeship income an amount for the cost of their tools in excess of a proportion of that income.

Deduction for Artists and Musicians — Employed musicians may claim the cost of maintenance, rental, insurance and capital cost allowance on musical instruments against employment income earned as a musician. Employed artists may deduct expenses related to their artistic endeavours, up to a limit.

Deduction for Military and Police Deployed to High-risk International

Missions — Members of the Canadian Forces or a Canadian police force who serve on a high-risk international mission may claim an offsetting deduction for their income earned on the mission.

Deduction for Tuition Assistance for Adult Basic Education — Students may deduct from income tuition assistance provided under the *Employment Insurance Act*.

Deferral of Salary Through Leave of Absence/Sabbatical Plans — Employees may defer salaries through a leave of absence/sabbatical plan. Provided certain conditions are met, these amounts are not subject to tax until received.

Employee Benefit Plans — Employers may make contributions to an “employee benefit plan” on behalf of their employees. The employee is not required to include in income the contributions to the plan, or the investment income earned within the plan, until amounts are received. Employers may not deduct these contributions to the plan until the contributions are actually distributed to employees.

Non-taxation of Allowances to Public Officials — Federal Members of Parliament, Senators and some other public officials receive flat allowances for expenses incidental to their duties. These amounts are not included in income for tax purposes.

Non-taxation of Business-paid Health and Dental Benefits — Employer-paid benefits for private health and dental plans are not taxable. Self-employed individuals may deduct private health and dental insurance premiums from their business income.

Non-taxation of Certain Non-monetary Employment Benefits — Certain fringe benefits, such as subsidized meals in staff cafeterias, subsidized recreational facilities and special clothing provided to employees by their employers, are not taxable.

Special Tax Computations for Certain Retroactive Lump-sum Payments — Certain retroactive lump-sum payments totalling \$3,000 or more are eligible for a special tax calculation.

FARMING AND FISHING

Items for Which an Estimate Is Not Available

Cash-basis and Flexibility in Inventory Accounting — Individuals engaged in farming and fishing may elect to include revenues when received, rather than when earned, and deduct expenses when paid rather than when the related revenue is reported. Farmers using the cash-basis method of accounting are allowed to depart from it with respect to their inventory.

Deduction of Farm Losses for Part-time Farmers — Individuals whose major source of income is not farming are allowed to deduct farm losses up to an annual maximum against other income.

Deferral of Income for Farmers — Income received from herd reduction in a drought region or the statutory forced destruction of livestock can be deemed to be income in the following year. Cash purchase tickets for deliveries of grain before year-end only become income in the year the tickets are cashed.

Net Income Stabilization Account for Farmers — Farmers may deposit a percentage of a given year’s eligible net sales, up to a limit, to their Net Income Stabilization Account. Some deposits are matchable by the federal and provincial governments. Governments also pay a 3% interest bonus annually on deposits that

remain in the account. Governments' contributions and interest accrued in the account are not taxable until withdrawn.

INVESTMENT

\$500,000 Lifetime Capital Gains Exemption for Farm Property and Small

Business Shares — A \$500,000 lifetime capital gains exemption is available for gains with respect to the disposition of qualified farm property and small business shares.

Deduction of Allowable Business Investment Losses — A portion of capital losses with respect to shares or debts of a small business corporation (allowable business investment losses) may be used to offset other income.

Deduction of Carrying Charges Incurred to Earn Income — Interest and other carrying charges, such as investment counselling fees and safety-deposit-box charges, incurred to earn business or investment income are deductible.

Deduction of Resource-related Expenditures — Individuals are entitled to deduct certain expenses associated with the exploration for, and the development of, Canadian natural resources. These expenses are deductible if the taxpayer either engages directly in these resource activities or provides financing to a resource company that in turn “flows through” the tax deductions to the taxpayer.

Partial Inclusion of Capital Gains — Fifty per cent of net realized capital gains are included in income. The amount of the tax expenditure is the additional tax that would have been collected had the full amount of the capital gains been included in income.

Items for Which an Estimate Is Not Available

Capital Gains Exemptions — \$1,000 on Personal-use Property and \$200 on

Foreign Exchange Transactions — In calculating the capital gain on personal-use property, if the proceeds of disposition are less than \$1,000, no capital gain needs to be reported. The first \$200 of net capital gains on foreign exchange transactions is exempt from tax.

Deduction of Limited Partnership Losses — A limited partner is able to deduct losses against other income up to the amount of investment at risk, whereas a shareholder is normally not permitted to deduct corporate losses against personal income. Unused losses may be carried back three years or forward seven years.

Deferral of Capital Gains Through Five-year Reserve — If proceeds from a sale of capital property are not all receivable in the year of the sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds are received. A minimum of 20% of the gain must be brought into income each year, creating a maximum five-year reserve period.

Deferral of Capital Gains Through Rollovers — Individuals (other than trusts) are permitted a rollover of capital gains on eligible small business investments. To the extent that the proceeds are reinvested in one or more eligible small business corporations, the liability for personal income tax on the gain is deferred until the replacement property is sold. In addition, capital gains on intergenerational transfers of farm property are deferred in certain circumstances until the property is disposed of outside the immediate family.

Deferral of Capital Gains Through 10-year Reserve for Farm Property and Small Business Shares — If proceeds from the sale of small business shares or from the sale of farm property to a child, grandchild or great-grandchild are not all receivable in the year of sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds become receivable. However, a minimum of 10% of the gain must be brought into income each year, creating a maximum 10-year reserve period. For most other assets, the maximum reserve period is five years.

Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust — Individuals may transfer capital property to their spouses or spousal trusts at the adjusted cost base of the property rather than the fair market value. This provides a deferral of the capital gain until the subsequent disposition of the property or until the transferee spouse dies.

Non-taxation of Capital Gains on Principal Residences — Capital gains realized on the disposition of a tax-filer's principal residence are non-taxable.

Reduced Inclusion Rate for Capital Gains Arising from Certain Donations — The inclusion rate for gifts of securities and ecologically sensitive land is 25%, which is half the inclusion rate for capital gains. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery.

Taxation of Capital Gains Upon Realization — Capital gains are taxed upon the disposition of property and not on an accrual basis. This provides a tax deferral.

NON-TAXABLE INCOME

Guaranteed Income Supplement and Allowance Benefits — Although Guaranteed Income Supplement and Allowance benefits for an eligible spouse, common-law partner, widow or widower must be included in income, an offsetting deduction from net income is provided. This approach effectively exempts such benefits from taxation while ensuring that they are taken into account in determining income-tested credits.

Social Assistance Benefits — Social assistance benefits must be included in income.

However, an offsetting deduction from net income is provided. This approach effectively exempts such benefits from taxation while continuing to have the amount of the benefit affect income-tested credits.

Workers' Compensation Benefits — Workers' compensation benefits must be included in income. However, an offsetting deduction from net income is provided. This approach effectively exempts such benefits from taxation while continuing to have the amount of the benefit affect income-tested credits.

Items for Which an Estimate Is Not Available

Certain Federal Government Pensions and Allowances — Pension payments, allowances and other compensation received with respect to an injury, disability or death associated with service in the Royal Canadian Mounted Police are non-taxable. In addition, veterans' allowances, veterans' disability pensions and support for dependants, civilian war pensions and allowances, and other service pensions are not included in income for tax purposes.

Damages With Respect to Personal Injury or Death — Amounts received with respect to damages for personal injury or death, and awards paid pursuant to the authority of criminal-injury compensation laws are not taxable. In addition, investment income earned in personal injury awards is excluded from income until the end of the year in which the person reaches the age of 21.

Death Benefits of Up to \$10,000 — Up to \$10,000 of death benefits paid by an employer to the spouse of a deceased employee are non-taxable.

Employer-paid CPP/QPP Contributions and EI Premiums — Employer-paid CPP/QPP contributions and EI premiums are not included in the calculation of income for employees.

Gifts and Bequests — Gifts and bequests are not included in income of the recipient for tax purposes.

Income of Indians on Reserves — The income of status Indians is exempt from tax if situated on a reserve.

Income from the Office of the Governor General and Allowances for Diplomats and Other Government Employees Posted Abroad — The income of the Governor General is exempt from personal income taxation. Diplomats and other government employees posted abroad receive a non-taxable income supplement to cover the additional costs associated with living outside Canada.

Investment Income on Life Insurance Policies — The investment income earned on some life insurance policies is not taxed as income to the policyholder. Instead, for reasons of administrative convenience, insurance companies are subject to tax on such earnings.

Lottery and Gambling Winnings — Lottery and gambling winnings are excluded from income for tax purposes.

Strike Pay — Strike pay is non-taxable.

SPECIAL CIRCUMSTANCES

Child Care Expense Deduction — A claim may be made for expenses incurred with respect to an eligible child to allow an individual to be employed for which an income is earned, to study, to take an occupational training course for which an allowance under the *National Training Act* is received, or to conduct research for which a grant is received. The spouse with the lower income must generally claim the deduction.

Treatment of Alimony, Maintenance and Child Support Payments — As of May 1, 1997, child support paid pursuant to a written agreement or court order made on or after that day, is not deductible to the payer nor included in the income of the recipient. Child support paid pursuant to a court order or written agreement made before that date continues to be deductible to the payer and included in the income of the recipient, unless the agreement is varied or both parties elect to have the new rules apply. The tax changes do not apply to spousal support. Spousal support payments remain deductible by the payer and are included in the income of the recipient.

Items for Which an Estimate Is Not Available

Deduction Related to Vows of Perpetual Poverty — Where a person has taken a vow of perpetual poverty as a member of a religious order, that person may deduct donations to the religious order up to his or her total employment and pension income (but not investment or other income) in lieu of the charitable donations credit.

Disability Supports Deduction — Individuals may deduct expenses from income with respect to disability supports if they are incurred for education or employment purposes.

Partial Exemption of Scholarship, Fellowship and Bursary Income — For students eligible for the education credit, the first \$3,000 of scholarship, fellowship and bursary income is exempt from tax.

Tax-free Amount for Emergency Service Volunteers — The first \$1,000 of amounts received by a tax-filer in connection with volunteer duties as an ambulance technician, firefighter or other emergency worker is exempt from tax.

TAX-DEFERRED SAVINGS

Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) – Deduction for Contributions — Contributions by individuals to registered plans are deductible, subject to certain limits.

Items for Which an Estimate Is Not Available

Deferred Profit-sharing Plans — Employer contributions to deferred profit-sharing plans on behalf of their employees are tax-deductible. Withdrawals from the plans are taxable in the hands of the employees.

Registered Education Savings Plans (RESPs) — Individuals may contribute to registered education savings plans on behalf of designated children. Income accrued within the plans is not taxed until withdrawn for the postsecondary education of the named beneficiaries.

RPPs and RRSPs — Non-taxation of Investment Income — Investment income in registered plans is not taxed as it accrues. Individuals benefit from a deferral of tax on investment income until funds are withdrawn from these plans.

CORPORATE TAX

The estimated value of tax provisions in the Ontario Corporate Income Tax, Capital Tax and Mining Tax systems are presented in Table 2.

TABLE 2: CORPORATE TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Corporate Income Tax	
Ontario Refundable Tax Credits	
Apprenticeship Training Tax Credit ^{2,3}	95
Co-operative Education Tax Credit ^{2,3}	5
Ontario Book Publishing Tax Credit ⁴	2
Ontario Business Research Institute Tax Credit	5
Ontario Computer Animation and Special Effects Tax Credit ⁴	4
Ontario Film and Television Tax Credit ⁴	80
Ontario Innovation Tax Credit	160
Ontario Interactive Digital Media Tax Credit ⁴	2
Ontario Production Services Tax Credit ⁴	40
Ontario Sound Recording Tax Credit ⁴	1
Ontario Deductions and Exemptions	
Additional Deduction for Credit Unions	5
Assets Used to Generate Clean Energy	s
Manufacturing and Processing (M&P) and Resource Sector Credit	220
Non-taxation of the Federal Investment Tax Credit ⁵	180
Ontario Current Cost Adjustment	2
Ontario Depletion Allowance	s
Ontario New Technology Tax Incentive	s
Ontario Political Contributions	2
Ontario Resource Allowance ⁶	50
Ontario School Bus Safety Tax Incentive ²	3
Small Business Deduction ⁷	825
Exemptions, Deductions and Deferrals Shared with the Federal Government	
Allowable Business Investment Losses ^{8,9}	3
Deductibility of Charitable Donations ⁸	70

TABLE 2: CORPORATE TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Deductibility of Gifts to the Crown ⁸	s
Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land ⁸	3
Deferral of Income for Farmers ⁸	s
Holdback on Progress Payments to Contractors ⁸	11
Non-taxation of Non-profit Organizations ⁸	70
Partial Inclusion of Capital Gains ⁸	700

Items for Which an Estimate Is Not Available

- Accelerated Writeoff of Capital Assets and Resource-related Expenditures
- Cash-basis Accounting and Flexibility in Inventory Accounting
- Deductibility of Countervailing and Anti-dumping Duties
- Deferral Through Capital Gains Rollovers
- Deferral Through Use of Billed-basis Accounting by Professionals
- Expensing of Advertising Costs
- Non-taxation of Provincial, Municipal and Federal Crown Corporations
- Non-taxation of Registered Charities
- Tax Exemption on Income of Foreign Affiliates of Canadian Corporations
- Taxation of Capital Gains upon Realization

Capital Tax¹⁰

Capital Tax Deduction	255
Deferred Mining Exploration and Development Expenses	4
Deferred Ontario New Technology Tax Incentive and Scientific Research and Experimental Development Costs	s
Exemption for Assets Used to Generate Clean Energy	s
Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities	s
Small Business Investment Tax Credit for Financial Institutions	8

Items for Which an Estimate Is Not Available

- Renounced Mining Expenses

TABLE 2: CORPORATE TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Mining Tax¹¹	
Mining Tax Exemption	15
Mining Tax Holiday for Mines (other than remote mines)	s
Mining Tax Holiday for New Remote Mines	s
Mining Tax Rate for Remote Mines	s
Processing Allowance	40
<i>Items for Which an Estimate Is Not Available</i>	
Fast Writeoff of Exploration Costs	

Endnotes:

1. Estimates are forecast to the 2005 calendar year based on preliminary 2003 Ontario tax administration data, unless otherwise noted. Estimates do not include the revenue impact of corporate income tax expenditures provided to mutual fund corporations.
2. Estimates include the impact of both the corporate and personal income tax provisions.
3. The Apprenticeship Training Tax Credit was announced in the 2004 Ontario Budget. The estimated 2005-06 impact as provided in the Budget was \$95 million. Some of the apprenticeship programs previously included under the Cooperative Education Tax Credit (CETC) were transferred to the new credit. The estimate for the CETC was produced at the time of the 2004 Budget.
4. Included in the estimates is the impact of the proposed enhancements outlined in the 2005 Ontario Budget.
5. Relating to qualifying Ontario Research and Development expenses.
6. Estimates are *not* net of any Crown royalties and mining taxes paid.
7. Includes the impact of the Ontario surtax on Canadian-controlled private corporations.
8. Estimates based on assessed 2003 federal tax administration data, allocated to Ontario and forecast to 2005.
9. Estimate could overstate true value as it does not reflect the future reduction in tax revenues that would occur if those losses were instead deducted from future capital gains.
10. Ontario has legislated a schedule to eliminate capital tax by 2012.
11. Estimates are forecast to the 2005 calendar year based on preliminary 2003 Ontario mining tax administration data.

CORPORATE INCOME TAX

Ontario Refundable Tax Credits

Apprenticeship Training Tax Credit — A 25% (30% for small businesses) refundable corporate/personal income tax credit for corporations and unincorporated businesses hiring apprentices prior to January 1, 2008 in industrial, construction, motive power and certain service trades.

Co-operative Education Tax Credit — A 10% (15% for small businesses) refundable corporate/personal income tax credit for corporations and unincorporated businesses hiring a co-op student.

Ontario Book Publishing Tax Credit — A 30% refundable tax credit for Ontario book publishing companies for publishing and promoting the first three literary works by a Canadian author in each eligible category of writing.

Ontario Business Research Institute Tax Credit — A 20% refundable tax credit for contract research and development (R&D) performed at eligible Ontario research institutes.

Ontario Computer Animation and Special Effects Tax Credit — A 20% refundable tax credit for digital animation and special effects in films or television productions. The credit is available in addition to Ontario's film and television tax credits.

Ontario Film and Television Tax Credit — A 20% (rate proposed to increase to 30% effective January 1, 2005 to December 31, 2009) refundable tax credit for certified domestic film and television production activity in Ontario. First-time producers are eligible for an additional 10% credit. There is a 10% bonus credit for filming outside the Greater Toronto Area.

Ontario Innovation Tax Credit — A 10% refundable tax credit for small corporations performing R&D in Ontario.

Ontario Interactive Digital Media Tax Credit — A 20% refundable tax credit for the creation, marketing and distribution of original interactive digital media products.

Ontario Production Services Tax Credit — An 11% (rate proposed to increase to 18% effective January 1, 2005 to March 31, 2006) refundable tax credit for foreign-based and non-certified domestic film and television production activity in Ontario.

Ontario Sound Recording Tax Credit — A 20% refundable tax credit for Ontario sound recording companies for producing and marketing sound recordings by an emerging Canadian artist or group.

Ontario Deductions and Exemptions

Additional Deduction for Credit Unions — A credit union may be eligible for a tax credit of up to 8.5% of its taxable income in excess of the income eligible for the small business deduction.

Assets Used to Generate Clean Energy — An immediate 100% deduction for new assets acquired before January 1, 2008 that are used to generate electricity from clean, alternative or renewable energy sources.

Manufacturing and Processing (M&P) and Resource Sector Credit — The general corporate income tax rate is reduced two percentage points to 12% for income from M&P (including income from the sale of electrical generation and from the production of steam), and farming, fishing, mining and logging.

Non-taxation of the Federal Investment Tax Credit — Federal investment tax credits earned for Scientific Research and Experimental Development incurred in Ontario are exempt from Ontario corporate income tax.

Ontario Current Cost Adjustment — An additional 30% deduction from income for acquiring new pollution control equipment.

Ontario Depletion Allowance — An additional deduction from income of a stated percentage of certain pre-1990 resource expenditures.

Ontario New Technology Tax Incentive — An immediate 100% deduction for qualifying intellectual property in a qualifying property transfer.

Ontario Political Contributions — A corporation may deduct from its taxable income certain contributions to registered Ontario political parties, constituency associations and candidates.

Ontario Resource Allowance — A deduction equal to 25% of resource profits that functions as a proxy for Crown royalties and mining taxes paid, which are not deductible for Ontario income tax purposes.

Ontario School Bus Safety Tax Incentive — An additional 30% deduction for corporations (5% refundable personal income tax credit for unincorporated businesses) for new, safer school buses acquired before January 1, 2006.

Small Business Deduction — Canadian-controlled private corporations qualify for a reduced corporate income tax rate of 5.5% on the first \$400,000 of active business income. The benefit of the lower rate is generally phased out as taxable income rises to \$1,128,519.

Exemptions, Deductions and Deferrals Shared with the Federal Government

Allowable Business Investment Losses — A portion of capital losses with respect to shares or debts of a small business corporation (allowable business investment losses) may be used to offset other income.

Deductibility of Charitable Donations — Donations to registered charities are deductible in computing taxable income within certain limits.

Deductibility of Gifts to the Crown — Gifts to Canada or a province are deductible in computing taxable income within certain limits.

Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land — Gifts of cultural property and ecologically sensitive land are deductible in computing taxable income within certain limits.

Deferral of Income for Farmers — Income received from herd reduction in a drought region or the statutory forced destruction of livestock can be deemed to be income in the following year. Cash purchase tickets for deliveries of grain before year-end only become income in the year the tickets are cashed.

Holdback on Progress Payments to Contractors — A contractor may exclude from taxable income the portion of progress payments (e.g., 10% to 15%) that may be held back until a project is completed satisfactorily.

Non-taxation of Non-profit Organizations — Non-profit corporations are generally exempt from income tax.

Partial Inclusion of Capital Gains — Fifty per cent of net realized capital gains are included in income. The amount of the tax expenditure is the additional tax that would have been collected had the full amount of the capital gains been included in income.

Items for Which an Estimate Is Not Available

Accelerated Writeoff of Capital Assets and Resource-related Expenditures — The difference between accelerated deductions for tax purposes (i.e., Capital Cost Allowance) and the true economic rate of depreciation based on an asset's useful life. Includes certain capital equipment for R&D and manufacturing as well as costs associated with exploration and development.

Cash-basis and Flexibility in Inventory Accounting — Corporations engaged in farming and fishing may elect to include revenues when received, rather than when earned, and deduct expenses when paid rather than when the related revenue is reported. Farmers using the cash-basis method of accounting are allowed to depart from it with respect to their inventory.

Deductibility of Countervailing and Anti-dumping Duties — Cash outlays for duties are deductible in the year they are paid even though these amounts may be refunded, in whole or in part, in a subsequent year.

Deferral Through Capital Gains Rollovers — The realization of capital gains may be deferred for tax purposes through various rollover provisions.

Deferral Through Use of Billed-basis Accounting by Professionals — In computing their income for tax purposes, professionals are allowed to elect either an accrual or billed-basis accounting method. Under the latter method, the costs of work in progress can be written off as incurred even though the associated revenues are not brought into income until the bill is paid or becomes receivable. This treatment gives rise to a deferral of tax.

Expensing of Advertising Costs — Advertising expenses are deductible on a current basis even though some of these expenditures provide a benefit in the future.

Non-taxation of Provincial, Municipal and Federal Crown Corporations — Provincial, municipal and certain federal Crown corporations are generally not subject to income tax.

Non-taxation of Registered Charities — Registered charities are generally exempt from income tax.

Tax Exemption on Income of Foreign Affiliates of Canadian Corporations — Active business income from foreign affiliates is exempt from taxation until repatriated in the form of dividends.

Taxation of Capital Gains Upon Realization — Capital gains are taxed upon the disposition of property and not on an accrual basis. This provides a tax deferral.

CAPITAL TAX

Capital Tax Deduction — The first \$7.5 million is deducted from taxable paid-up capital for purposes of calculating Ontario capital tax. The deduction will increase to \$10 million on January 1, 2006, \$12.5 million on January 1, 2007, and \$15 million on January 1, 2008.

Deferred Mining Exploration and Development Expenses — Mining corporations may deduct the full cost of exploration and development expenses from paid-up capital.

Deferred Ontario New Technology Tax Incentive (ONTTI) and Scientific Research and Experimental Development (SR&ED) Costs — Corporations may deduct the full amount of ONTTI and SR&ED assets from paid-up capital.

Exemption for Assets Used to Generate Clean Energy — Assets used to generate electricity from clean, alternative or renewable energy sources and acquired by December 31, 2007 are exempt from capital tax.

Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities — Credit unions, caisses populaires, family farm corporations, fishing corporations and other specified entities are exempt from capital tax.

Small Business Investment Tax Credit for Financial Institutions — The tax credit reduces the capital tax liability of financial institutions and is available for patient capital investments in small businesses, for below-prime loans made to small businesses and for investments in Community Small Business Investment Funds.

Items for Which an Estimate Is Not Available

Renounced Mining Expenses — Mining corporations may deduct from paid-up capital exploration and development expenses renounced to individual shareholders.

MINING TAX

Mining Tax Exemption — Annual mining profits up to \$500,000 are exempt from mining tax.

Mining Tax Holiday for Mines (other than remote mines) — For a period of three years, the first \$10 million of profits generated by a new mine or a major expansion of an existing mine are exempt from mining tax.

Mining Tax Holiday for New Remote Mines — For a period of 10 years, the first \$10 million of profits generated by a new mine opened in a remote Ontario location are exempt from mining tax.

Mining Tax Rate for Remote Mines — After the 10-year mining tax holiday period ends for new remote mines, a 5% mining tax rate applies to profits from the operation of a remote mine.

Processing Allowance — Mine operators that process mine output in Canada receive an allowance deduction from mining profits based on the capital cost of processing assets. The allowance can range from 8% to 20% depending on the type and location of the asset.

Items for Which an Estimate Is Not Available

Fast Writeoff of Exploration Costs — Up to 100% of exploration, development and pre-production costs incurred by a mine operator in Ontario may be deducted in a taxation year.

SALES AND COMMODITY TAX

Provisions relating to sales and commodity taxes including the Land Transfer Tax, Fuel Tax, Gasoline Tax, Retail Sales Tax and Tobacco Tax are presented in Table 3.

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Land Transfer Tax	
Exemptions	
Life Leases ²	1
Deferrals and Exemptions for Corporate Reorganizations ³	37
<i>Items for Which an Estimate Is Not Available</i>	
Hospital Restructuring	
Oil/Pipeline Easements and Mineral Lands	
Other Transfers and Dispositions	
Refunds	
Refund for First-time Home Buyers ³	35
Fuel Tax	
Exemptions/Reduced Rates	
Exemption for Biodiesel ⁴	s
Exemption for Coloured Fuel ⁵	420
Reduced Rate for Railway Diesel ⁶	30
Refunds	
Auxiliary Power Take-off Equipment ³	5
Gasoline Tax	
Exemptions/Reduced Rates	
Exemption for Ethanol, Methanol and Natural Gas ⁷	38
Reduced Rate for Aviation Aircraft ⁸	260
Reduced Rate for Propane ⁸	10
Refunds	
Auxiliary Power Take-off Equipment ³	s
Aviation Fuel ³	s
Tax-exempt Use in Unlicensed Equipment ³	7

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Retail Sales Tax	
Exemptions	
25¢ Coin Pay Phone Calls ²	10
Agricultural Goods	265
Audio Books Purchased by Persons Who Are Legally Blind ²	4
Automobile Insurance Premiums ^{9,10}	845
Basic Groceries	1,560
Books, Newspapers and Magazines Sold by Subscription	355
Children's Car Seats and Booster Seats ¹¹	4
Children's Clothing	110
Commercial Aircraft, Vessels Greater than 1,400 Cubic Metres and Commercial Vessels Less than 1,400 Cubic Metres	70
Custom Software ¹²	70
Donations to Schools, Colleges and Universities ²	6
Educational CD-ROMs and DVDs ²	3
Energy	4,090
Feminine Hygiene Products ¹¹	17
Footwear Sold for \$30 or Less	30
Goods Purchased for Use by Fishers and Fur-trappers	s
Individual Life and Health Insurance Premiums ¹⁰	415
Mobile Homes	s
Municipal Fire-fighting Equipment	s
Prepared Foods Sold for \$4 or Less ¹¹	210
Prescription Drugs and Medical Supplies	590
Production Machinery and Equipment	600
Religious Equipment	9
Repairs and Replacements Performed Under Warranty ⁹	140
Seedlings	s
Services	8,930
Toll-free Telephone Services ²	42
Transient Accommodation ¹³	85
University Research Equipment	7

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
<i>Items for Which an Estimate Is Not Available</i>	
Admissions	
Municipal, Hospital Restructuring	
Museums and Art Galleries	
Used Adult Clothing or Footwear Sold for \$50 or Less by Religious, Charitable and Benevolent Organizations	
Credits/Rebates	
Rebate for Alternative Fuel Vehicles ³	1
RST Rebate for Building Materials for Religious, Charitable and Benevolent Organizations ³	25
Tax Credit for Fuel Conservation ¹⁴	5
Temporary Exemption for Destination Marketing Fees ¹¹	2
Temporary Rebate for Building Materials Incorporated into Electricity Generating, Qualifying Nuclear and Deep Lake-water Cooling Facilities ³	s
Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems ³	s
Vendor Compensation ¹⁵	100
Tobacco Tax	
Compensation for Tax Collectors ¹⁶	s

Endnotes:

1. Estimates are forecast to the 2005 calendar year based on preliminary 2001 provincial Input-Output tables from Statistics Canada, unless otherwise noted.
2. Based on the Ontario Budget estimate, when the measure was proposed, projected to 2005.
3. Based on refunds filed or rebates/deferrals claimed.
4. Based on estimated amount of biodiesel sold in Ontario.
5. Based on returns filed by registered dyers.
6. Foregone revenue estimated as difference from the regular fuel tax rate.
7. Based on estimated ethanol volumes produced in and imported to Ontario.
8. Foregone revenue estimated as difference from the regular gasoline tax rate.
9. Estimates assume items would be taxed at 8% general RST rate.
10. Based on insurance premiums data provided by the Financial Services Commission of Ontario.
11. Estimates derived from consumer spending data.
12. Based on Statistics Canada Computer Software and Related Services Industry Revenue Profile.
13. The RST rate on accommodations is 5%. Foregone revenue estimated as the difference from the regular RST rate of 8%.
14. Based on new passenger vehicle sales.
15. Based on returns filed by RST vendors.
16. Based on returns filed by tobacco tax collectors.

SALES AND COMMODITY TAX — DESCRIPTION OF TAX PROVISIONS

LAND TRANSFER TAX

Exemptions

Life Leases — There is a land transfer tax (LTT) exemption for the acquisition of a unit in a non-profit or charitable life-lease development, where the unit is used as the principal residence of the owner, the owner's spouse or parent.

Deferrals and Exemptions for Corporate Reorganizations — Transfers between corporations can be made without LTT, providing the transfer is between affiliated corporations, or as part of certain corporate reorganizations, and is not registered on title.

Items for Which an Estimate Is Not Available

Hospital Restructuring — Transfers between hospitals as a result of an amalgamation or the closure/transfer of hospital programs are exempt.

Oil/Pipeline Easements and Mineral Lands — There are LTT exemptions regarding the acquisition of an easement or right of way in land for the purpose of enabling an oil or gas pipeline to be constructed/operated, and for certain acquisitions of mineral rights.

Other Transfers and Dispositions — There are LTT exemptions for certain transfers and dispositions of land, including conveyances to the Crown, transfers between spouses, and transfers of family farms or family businesses. There are also exemptions for unregistered dispositions relating to employee relocation packages, as well as for the acquisition of a *de minimus* interest in a partnership and the acquisition of a unit in a mutual fund trust.

There are also various other tax expenditures including no tax payable for a transfer of a leasehold interest in land that has an unexpired term that cannot exceed 50 years and a reduction in the value of consideration for land purchased to replace land taken under statutory authority.

Refunds

Refund for First-time Home Buyers — An LTT refund is available for first-time buyers of newly constructed homes. The maximum amount of the refund is \$2,000.

FUEL TAX

Exemptions/Reduced Rates

Exemption for Biodiesel — Biodiesel is exempt from the 14.3 cents/litre tax under the *Fuel Tax Act*, regardless of whether it is mixed with diesel fuel.

Exemption for Coloured Fuel — Coloured fuel is exempt from the 14.3 cents/litre tax under the *Fuel Tax Act*. Examples of permitted coloured fuel use are operating unlicensed construction, forestry, mining, farm and other business equipment; generating electricity; use as heating, lighting or cooking fuel; and operating commercial marine vessels.

Reduced Rate for Railway Diesel — Diesel fuel used to power locomotives is taxed at the rate of 4.5 cents/litre.

Refunds

Auxiliary Power Take-off Equipment — Powering a unit from an engine that uses taxable fuel from a vehicle's tank is considered a "Power Take-off" function and qualifies for a refund of the 14.3 cents/litre fuel tax (e.g., mixer on ready-mix concrete trucks).

GASOLINE TAX

Exemptions/Reduced Rates

Exemption for Ethanol, Methanol and Natural Gas — Ethanol, methanol and natural gas are exempt from the 14.7 cents/litre gasoline tax. In the case of ethanol-gasoline blends, the ethanol portion of the blend is exempt.

Reduced Rate for Aviation Aircraft — Aviation fuel purchased or delivered in Ontario, or transferred into fuel tanks of an aircraft in Ontario, is taxed at the rate of 2.7 cents/litre.

Reduced Rate for Propane — Propane is taxed at the rate of 4.3 cents/litre.

Refunds

Auxiliary Power Take-off Equipment — Powering a unit from an engine that uses gasoline from a vehicle's tank is considered a "Power Take-off" function and qualifies for a refund of the 14.7 cents/litre gasoline tax.

Aviation Fuel — Aviation fuel used for technical stops refuelling at Ottawa International Airport is eligible for a refund of the 2.7 cents/litre aviation fuel tax.

Tax-exempt Use in Unlicensed Equipment — Any equipment or vehicle that is not licensed or required to be licensed under the *Highway Traffic Act* and operated in Ontario by any business, industry or institution (excluding recreational use) may qualify for a refund of gasoline and/or propane tax. Examples of equipment for which a refund may be claimed include unlicensed farming, construction and forestry equipment, and boats used in business operations such as commercial or construction boats.

RETAIL SALES TAX

Exemptions

25¢ Coin Pay Phone Calls — An RST exemption applies to the 25¢ charge for local telephone calls made by depositing coins into pay telephones.

Agricultural Goods — RST exemptions are provided for a wide range of agricultural products and goods used in the agricultural industry.

Audio Books Purchased by Persons Who Are Legally Blind — Audio books can be purchased exempt from RST by or for a person who is legally blind, as identified by a Canadian National Institute for the Blind membership card.

Automobile Insurance Premiums — Auto insurance premiums are exempt from RST.

Basic Groceries — Groceries exempt from RST include the majority of food products for preparation and consumption at home, as well as vitamins and minerals. Tax is charged on soft drinks, candies and confections, certain snack foods and alcoholic beverages.

Books, Newspapers and Magazines Sold by Subscription — Books published solely for educational, technical, cultural or literary purposes and containing no third-party advertising are exempt. Exempt newspapers include unbound printed publications that are usually issued daily or weekly, and contain news, advertising and literary matter. Exempt magazines include those that are sold by subscription and that are printed bound publications issued annually or more frequently and that contain articles from various identified contributors and may also contain pictures and advertising. This exemption also pertains to newsletters and to publications produced or purchased by religious, charitable or benevolent organizations. The 2005 Ontario Budget proposed that the RST exemption for publications produced or purchased by religious, charitable or benevolent organizations be extended to include CD-ROMs and DVDs used to promote the objectives of the organization.

Children's Car Seats and Booster Seats — Car seats intended to secure children within a motor vehicle and that meet prescribed federal government standards are exempt. The 2005 Ontario Budget proposed that the exemption be extended to include booster seats.

Children's Clothing — Clothing, in sizes up to and including girls' Canada Standard Size 16 and boys' Canada Standard Size 20, or clothing designed for girls or boys and sized small, medium or large, is exempt from RST. Diapers are also included in the exemption.

Commercial Aircraft, Vessels Greater than 1,400 Cubic Metres, and Commercial Vessels Less than 1,400 Cubic Metres — Commercial air and water transportation equipment generally capable of interjurisdictional travel is exempt.

Custom Software — Custom computer programs are exempt from RST. Custom computer programs are those that are designed and developed solely to meet the specific requirements of, and that are intended for the exclusive use of, a particular person. This includes computer programs that are modified to meet the specific requirements of a particular person where the price of the modification is greater than the cost of the pre-written program if sold separately, or if sold together, the price for the modified program is more than 200% of the unmodified program.

Donations to Schools, Colleges and Universities — Gifts to schools, colleges and universities are exempt from RST.

Educational CD-ROMs and DVDs — CD-ROMs purchased by schools, school boards, community colleges, universities and public libraries are exempt from RST. The 2005 Ontario Budget proposed that the exemption be extended to include educational DVDs, provided they will not be used for commercial exhibition for profit.

Energy — Forms of energy exempt from RST include electricity, home heating fuels, cooking fuels, wood, coal, coke and energy sources taxed under other Acts.

Feminine Hygiene Products — Sanitary pads, sanitary belts and tampons are exempt from RST.

Footwear Sold for \$30 or Less — Regardless of size, individual footwear sold for \$30 or less per pair is exempt.

Goods Purchased for Use by Fishers and Fur-trappers — RST exemptions are provided for a number of goods used by persons engaged in the business of fishing or fur-trapping.

Individual Life and Health Insurance Premiums — RST does not apply to premiums for individual life and health insurance.

Mobile Homes — Mobile homes are taxed at 8% on 50% of the dealer's selling price and modular homes at 8% on 55% of the manufacturer's selling price to the dealer. Mobile and modular homes eligible for exemption are those that are built to CSA Z240 standards and represent an alternate form of "home building" intended for permanent placement on a site.

Municipal Fire-fighting Equipment — Fire-fighting vehicles when purchased at a price of more than \$1,000 per vehicle for the exclusive use of a municipality, university, public hospital, local services board or volunteer group, and repair parts for such vehicles, are exempt from RST.

Prepared Foods Sold for \$4 or Less — Tax applies to all prepared foods, including takeout, with the exception of prepared foods for which the total charge is \$4 or less.

Prescription Drugs and Medical Supplies — A variety of drugs, medicines and medical supplies used to treat or cope with an illness, chronic disease or physical disability are exempt from RST. This exemption may be conditional upon prescription by an authorized health care practitioner (e.g., prescription drugs, optical devices); purchase by a hospital or other health care facility for patient care (e.g., specialized beds, medical supplies, medical equipment); or goods designed solely for dealing with a particular condition and thus specifically exempted within the *Retail Sales Tax Act* (e.g., artificial limbs, orthopedics, other equipment or animals for persons with physical disabilities).

Production Machinery and Equipment — Machinery, equipment and other apparatus used primarily and directly in the manufacturing or production of tangible personal property are exempt. Ontario also exempts consumables and processing materials; R&D equipment for manufacturers and non-profit medical R&D equipment; explosives and refractory materials; plans and drawings; and typesetting, artwork and similar materials.

Religious Equipment — Equipment used by a religious institution exclusively in that part of its premises where religious worship or sabbath school is regularly conducted (e.g., altars, baptismal fonts, linens, organs, pulpits, stained glass) is exempt.

Repairs and Replacements Performed Under Warranty — Parts and labour used to carry out repairs under warranty are exempt from RST.

Seedlings — Cones, cuttings, seeds, seedlings, similar planting stock and other such silvicultural material when purchased for planting in a Crown forest, by a person

holding a subsisting forest resource licence issued by the Ministry of Natural Resources, are exempt.

Services — Services are generally exempt except for a number of specifically listed items such as telecommunications, repair and maintenance labour, and parking.

Toll-free Telephone Services — Toll-free telephone services can be bought exempt by any commercial, industrial, institutional, vocational, occupational or other organization for business use. Toll-free telephone services include telephone numbers beginning with 1-800, 1-888, 1-877, 1-866, etc.

Transient Accommodation — Purchasers of transient accommodation (lodging in hotels, motels, hostels, apartment houses, clubs and other similar accommodation for periods of less than one month) pay tax at the rate of 5%.

University Research Equipment — Equipment purchased by the governing body of a university that is designed for use, and used exclusively in research and investigation, and repair parts for that equipment are exempt from RST.

Items for Which an Estimate Is Not Available

Admissions — All admissions \$4 and under are exempt. In addition, a number of special exemptions are provided, including admissions to live theatrical or musical performances in places of amusement where 90% of the performers are permanent residents of Canada; admissions to live events (e.g., plays, ballets, concerts, operas) held at theatres with 3,200 seats or less; events such as trade shows that are restricted to members of specified organizations and not advertised as being open to the general public; fund-raising events where no performer is paid or receives any other consideration for performing; and events held or sponsored by federally registered Canadian amateur athletic associations and their affiliates, federally registered charitable groups, labour unions and benevolent and fraternal societies, agricultural societies operating a place of amusement during an agricultural fair, or recognized educational institutions.

Municipal, Hospital Restructuring — Sales tax is not payable by a municipality or public hospital on the acquisition of tangible personal property from another municipality or hospital as part of a statutory restructuring, legally required amalgamation or closure of a hospital or hospital program.

Museums and Art Galleries — Museums and art galleries that are more than 50% funded by public donations and grants by public bodies may purchase works of art exempt of sales tax.

Used Adult Clothing or Footwear Sold for \$50 or Less by Religious, Charitable and Benevolent Organizations — The sale of used clothing and footwear by a religious, charitable or benevolent organization, where the clothing and footwear are sold in one transaction for \$50 or less, is exempt from RST.

Credits/Rebates

Rebate for Alternative Fuel Vehicles — The RST paid on vehicles powered by alternative fuels is refunded, to a maximum of \$750 for propane vehicles and \$1,000 for vehicles powered by any other alternative fuel. Certain hybrid electric passenger vehicles are also eligible for the rebate.

RST Rebate for Building Materials for Religious, Charitable and Benevolent Organizations — The Minister may rebate to the governing body of a religious, charitable or benevolent organization the RST inherently paid on building materials used in the construction or repair of real property owned by or under lease for a minimum of 20 years to the organization.

Tax Credit for Fuel Conservation — A \$100 RST credit, the Tax Credit for Fuel Conservation, is available to purchasers of a new passenger automobile that consumes less than six litres of fuel per 100 kilometres of highway driving.

Temporary Exemption for Destination Marketing Fees — There is an RST exemption for Destination Marketing Fees (DMFs) charged on transient accommodation on or after May 19, 2004 and on or before May 18, 2005. The 2005 Ontario Budget proposed that the exemption be extended to include DMFs billed on or before June 30, 2006.

Temporary Rebate for Building Materials Incorporated into Electricity Generating, Qualifying Nuclear and Deep Lake-water Cooling Facilities — A rebate is available for RST paid on building materials purchased and incorporated into eligible electricity generating facilities or deep lake-water cooling facilities on or after November 26, 2002 and on or before December 31, 2007. The rebate is also available for building materials purchased and incorporated into qualifying nuclear facilities on or after June 2, 2003 and on or before December 31, 2007. The rebate applies to new facilities as well as upgrades and expansions of existing facilities.

Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems — A rebate is available for RST paid on the purchase of a new solar energy system installed into a residential premises, including a multi-residential building, or on any expansion or upgrade to an existing solar energy system. Systems must be purchased and incorporated on or after November 26, 2002 and on or before November 25, 2007. The 2004 Ontario Budget extended the rebate

to include wind energy, micro hydro-electric and geothermal energy systems, or any expansion or upgrade to those systems, purchased and incorporated into a residential premises, including a multi-residential building, on or after March 28, 2003 and on or before November 25, 2007.

Vendor Compensation — Compensation is given to vendors for collecting RST on behalf of the Province. Compensation is based on the amount of RST collected on sales for the period. The maximum amount that can be claimed in compensation is \$1,500 for a 12-month period from April 1 to March 31.

TOBACCO TAX

Compensation for Tax Collectors — Those who collect tobacco tax may be paid the lesser of \$2,000 or 4% of the tax collected from April 1 to March 31 annually. For tax increases, wholesalers may claim 5% of the tax differential when required to conduct an inventory by the minister.

EDUCATION PROPERTY TAX

Table 4 provides estimates of tax provisions relating to the Education Property Tax system.

TABLE 4: EDUCATION PROPERTY TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
Brownfields Financial Tax Incentive Program	s
Charity Rebate	6
Conservation Land Property Tax Exemption Program	2
Eligible Convention Centres Exemption	1
Eligible Live Performance Theatres Exemption	8
Farm Property Class Tax Rate Reduction	70
Farmlands Awaiting Development Sub-Class Tax Rate Reduction	1
Heritage Property Tax Rebate	s
Managed Forest Tax Incentive Program	2
Seniors and Persons with Disabilities Property Tax Relief ³	s
Tax Exemptions Under Private Statutes	6
Vacant Commercial and Industrial Unit Rebate	35
Vacant Land and Excess Land Sub-Class Tax Rate Reduction	55
<i>Items for Which an Estimate Is Not Available</i>	
Other Tax Exemptions Under Public Statutes ⁴	
Discretionary exemptions granted by municipalities to special purpose properties (e.g., legions, navy leagues, municipal capital facilities)	
Mandatory exemptions granted to special purpose/institutional properties (e.g., places of worship, cemeteries, The Boy Scouts Association of Canada and The Canadian Girl Guides Association, Canadian Red Cross, St. John Ambulance and charitable, non-profit philanthropic corporations organized for the relief of the poor and supported in part by public funds)	
Relief from Property Taxes That Are Unduly Burdensome for Residential, Farm or Managed Forest Properties	

Endnotes:

1. Expenditures related to provincial land taxes or payments made in lieu of taxes have not been included.
2. Estimates based on 2005 education tax rates, 2005 Assessment Roll, 2004 Municipal Financial Information Returns where available, otherwise 2003 Municipal Financial Information Returns and municipal tax policies.
3. Estimate does not include expenditures due to the exemption from taxation on 10% of the assessment of improvements to accommodate seniors and persons with disabilities in newly built homes or the expenditure on such improvements in existing homes.
4. See description for a detailed list of special purpose/institutional properties subject to discretionary or mandatory exemption.

EDUCATION PROPERTY TAX — DESCRIPTION OF TAX PROVISIONS

Brownfields Financial Tax Incentive Program — Municipalities may freeze or cancel the taxes on eligible brownfields properties for a defined period, and the Province may provide matching relief from education tax.

Charity Rebate — Municipalities must rebate a minimum of 40% of the municipal and education taxes paid by charities in the commercial and industrial property classes, and may rebate any amount of property taxes paid by charities in other property classes. Municipalities may also rebate any percentage of the municipal and education taxes paid by non-profit organizations.

Conservation Land Property Tax Exemption Program — Eligible conservation lands are exempt from municipal and education property taxes.

Eligible Convention Centres Exemption — Eligible large, privately owned convention centres are exempt from education property taxes.

Eligible Live Performance Theatres Exemption — Eligible theatres for live performances are exempt from municipal and education property taxes.

Farm Property Class Tax Rate Reduction — Eligible farm properties are subject to residential education property tax rates reduced by 75%. For municipal purposes, these properties are subject to residential property tax rates reduced by a locally determined amount of at least 75%.

Farmlands Awaiting Development Sub-Class Tax Rate Reduction — Eligible farmlands awaiting development may receive a locally determined reduction from the otherwise applicable tax rates.

Heritage Property Tax Rebate — Municipalities may adopt a program to reduce the municipal and education property taxes of eligible heritage properties by up to 40%.

Managed Forest Tax Incentive Program — Eligible managed forest properties are subject to residential property tax rates for municipal and education purposes that are reduced by 75%.

Seniors and Persons with Disabilities Property Tax Relief — Expenditures under this category include locally determined municipal and education property tax relief in the form of reduced, cancelled or deferred reassessment-related tax increases

on residential properties of low-income seniors and persons with disabilities; the exemption from property taxation of improvements to an existing home to accommodate seniors or persons with disabilities; and the exemption from taxation on 10% of the assessment of newly built homes that provide accommodation to seniors and persons with disabilities.

Tax Exemptions Under Private Statutes — Property tax exemptions have been granted through private statutes to various cultural, heritage, recreational and community service organizations (e.g., YMCAs).

Vacant Commercial and Industrial Unit Rebate — Municipalities must rebate from 30% to 35% of the municipal and education property taxes paid with respect to vacant commercial and industrial buildings or portions of buildings (if vacancy exceeds 90 consecutive days).

Vacant Land and Excess Land Sub-Class Tax Rate Reduction — Municipal and education property tax rates on vacant and excess lands in the commercial and industrial property classes are reduced by 30% to 35% of the otherwise applicable class tax rates.

Items for Which an Estimate Is Not Available

Other Tax Exemptions Under Public Statutes:

(1) Discretionary exemptions granted by municipalities to special purpose properties include:

- Properties used and occupied as memorial homes, clubhouses or athletic grounds by veterans of the Canadian or Allied Armed Forces;
- Properties owned by the Navy League of Canada and used and occupied solely for the purposes of carrying out the activities of the Ontario division of the Navy League;
- Municipal capital facilities operated by private-sector partners and used for municipal purposes. Examples of such facilities could include ice rinks, community centres and municipal housing project facilities; and
- Properties occupied by not-for-profit hospital service corporations for providing laundry and/or food services.

(2) Mandatory exemptions granted to special purpose/institutional properties include:

- Places of worship that are owned by a church or religious organization, including 50% of the principal residence of the clergy;
- Cemeteries and burial sites;

- Land owned, used and occupied solely by a non-profit philanthropic, religious or educational seminary of learning;
- Land owned by a municipality (but not if occupied by a taxable tenant);
- Property owned, occupied and used solely by The Boy Scouts Association of Canada or The Canadian Girl Guides Association;
- Land owned, used and occupied by a non-profit philanthropic corporation for the purpose of a house of refuge;
- Land owned, used and occupied by the Canadian Red Cross, St. John Ambulance, or a charitable, non-profit philanthropic corporation organized for the relief of the poor that is supported in part by public funds;
- The property of a children's aid society if used exclusively for the purposes of and in connection with the society;
- The property of scientific and literary institutions including public libraries and agricultural societies to the extent that it is occupied for the purposes of the society;
- Battle sites; and
- Exhibition sites (extent determined by municipal bylaw).

Relief from Property Taxes That Are Unduly Burdensome — Municipalities may reduce municipal property taxes where they are determined to be unduly burdensome to the owner of property in the residential, farm or managed forest property classes. Education taxes are reduced in the same proportion as municipal taxes.

EMPLOYER HEALTH TAX

The following table provides an estimate of the tax exemption under the 2005 Employer Health Tax system.

TABLE 5: EMPLOYER HEALTH TAX (EHT)

Tax Provisions	2005 Estimates (\$ millions)
\$400,000 Exemption for Private-sector Employers ¹	575

Endnote:

1. Estimate is forecast to the 2005 calendar year based on 1996 and 2003 EHT-filer data.

EMPLOYER HEALTH TAX

\$400,000 Exemption for Private-sector Employers — The Employer Health Tax is payable by all Ontario employers. Private-sector employers are exempt from tax on the first \$400,000 of annual total Ontario remuneration.

ESTATE ADMINISTRATION TAX

Table 6 provides an estimate of the 2005 exemption under the Estate Administration Tax.

TABLE 6: ESTATE ADMINISTRATION TAX

Tax Provisions	2005 Estimates (\$ millions)
Exemption Where the Value of the Estate Does Not Exceed \$1,000	s

ESTATE ADMINISTRATION TAX

Exemption Where the Value of the Estate Does Not Exceed \$1,000 — The Estate Administration Tax is payable by the estate of a deceased person immediately upon the issuance of an estate certificate. If the value of the estate does not exceed \$1,000, the estate is exempt from tax.

GROSS REVENUE CHARGE

Table 7 provides an estimate of the tax provision under the Gross Revenue Charge.

TABLE 7: GROSS REVENUE CHARGE (GRC) ¹

Tax Provisions	2005 Estimates ² (\$ millions)
Gross Revenue Charge 10-year Holiday	S

Endnotes:

1. Expenditure does not include the provincial water rental portion of the GRC.
2. 2005 estimate based on 2003 GRC returns.

GROSS REVENUE CHARGE

Gross Revenue Charge (GRC) — The GRC is paid with respect to hydro-electric generating sites, replacing municipal and education property taxes and provincial water rental charges. A 10-year holiday from the GRC is provided for eligible new, expanded and redeveloped hydroelectric generating stations.

ANNEX IV

| BORROWING AND DEBT MANAGEMENT

LONG-TERM PUBLIC BORROWING

The objective of Ontario's borrowing program is to finance the cash requirements of the Province and the Ontario Electricity Financial Corporation (OEFC) in a timely and cost-effective manner. The Province employs a variety of financing and hedging instruments in domestic and international capital markets to meet its annual borrowing requirement.

The borrowing program is focused on the domestic market, but also diversifies funding sources by accessing international markets. A flexible borrowing approach is used to respond to investor preferences and also aims to smooth the debt maturity profile by scheduling maturities into years that currently have lower levels of maturing debt.

A glossary of terms used in this Annex is included at the end.

2005-06 BORROWING PROGRAM: PROVINCE AND OEFC (\$ BILLIONS)

	Actual 2004-05	2005-06		
		Budget Plan	Current Outlook*	In-Year Change
Deficit/(Surplus)	1.6	2.8	2.4	(0.4)
Adjustments for:				
Non-Cash Items Included in Deficit	(1.0)	2.3	2.2	(0.1)
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	(0.8)	—
Acquisitions of Major Tangible Capital Assets	1.4	1.8	1.8	—
Debt Maturities	15.3	20.5	20.5	—
Debt Redemptions	1.4	0.7	0.7	—
Canada Pension Plan Borrowing	(1.0)	(1.2)	(1.0)	0.2
Increase/(Decrease) in Cash and Cash Equivalents	—	—	—	—
Pre-Funding for 2005-06	6.2	—	—	—
Decrease/(Increase) in Short-Term Borrowing	0.4	—	(1.0)	(1.0)
Other Uses/(Sources) of Cash	1.4	1.1	2.1	1.0
Total Long-Term Public Borrowing Requirement	24.8	27.2	26.9	(0.3)

*Second-quarter fiscal forecast as at September 30, 2005. If the reserve is not required this year, the deficit is projected to be \$1.4 billion.

Note: Numbers may not add due to rounding.

BORROWING PROGRAM STATUS*			
(\$ BILLIONS)	Completed	Remaining	Total
Province	15.7	8.7	24.4
OEFC	1.4	1.1	2.5
Total	17.1	9.8	26.9

*As at October 19, 2005.

The Total Long-Term Public Borrowing Requirement for the Province and OEFC in 2005-06 is projected at \$26.9 billion, down from \$27.2 billion in the Budget Plan. This amount includes \$20.5 billion of Debt Maturities, \$0.7 billion of Debt Redemptions and \$2.4 billion from the Deficit.

The decrease in the Total Long-Term Public Borrowing Requirement is mainly due to the decline in the Deficit and the Adjustments for Non-Cash Items Included in Deficit, offset by the decline in Canada Pension Plan borrowing.

The increase in other Uses/(Sources) of Cash is mainly attributable to projected short-term loans to the Ontario Power Authority (OPA) to bridge the timing of their cash-flow requirements. This amount is being financed through short-term borrowing.

The Ontario Financing Authority (OFA) completed \$16.8 billion of the Total Long-Term Public Borrowing Requirement during the first half of the fiscal year. As of October 19, 2005, an additional \$0.3 billion was borrowed in the long-term markets, for a total of \$17.1 billion. This includes pre-borrowing of \$6.2 billion undertaken during 2004-05. Nearly 64 per cent of the Province's 2005-06 program has been completed.

The domestic market has been the main source of funding in 2005-06, providing a total of \$13.8 billion through a number of instruments, including:

- Syndicated issues;
- Medium-Term Notes;
- Floating Rate Notes;
- Ontario Savings Bonds; and
- Real Return Bonds.

On September 28, 2005, the Province successfully launched its first Real Return Bond (RRB) issue. RRBs pay investors a rate of return that is adjusted for inflation using the Canadian Consumer Price Index (CPI). The Province issued the RRB at a real rate below two per cent compared to an average over the past five years of 2.8 per cent and a high of 3.8 per cent for Government of Canada RRBs. Due to strong demand from institutional

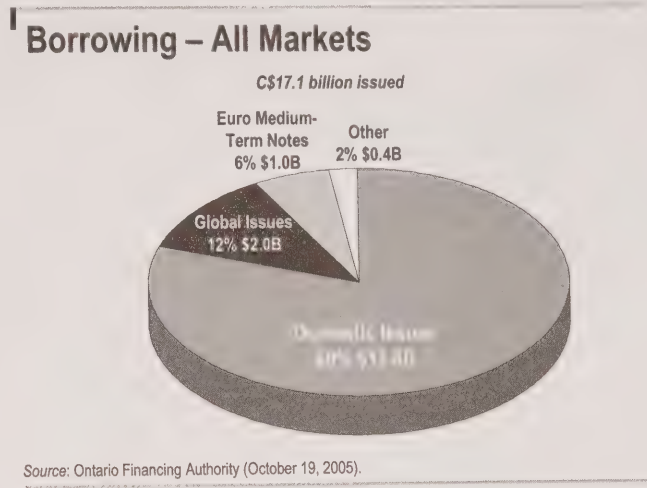
investors, the Province was able to increase the issue amount from \$250 million to \$700 million.

The RRB was issued on behalf of OEFC to replace an existing liability that pays 3.25 per cent over the Ontario CPI. This will save OEFC over \$9 million annually.

While the majority of the borrowing has been completed in the domestic market, the Province has also successfully issued in the international capital markets including:

- Global bonds denominated in U.S. and New Zealand dollars.
- Euro Medium-Term Notes in Canadian and Australian dollars, Swiss francs and South African rand — the first by any Canadian province.

To date, the Province has borrowed \$3.0 billion, or nearly 18 per cent of its long-term borrowing program, in international markets, compared to 29 per cent in fiscal 2004-05 and 26 per cent in fiscal 2003-04.



MEDIUM-TERM BORROWING OUTLOOK

MEDIUM-TERM BORROWING PROGRAM OUTLOOK: PROVINCE AND OEFC* (\$ BILLIONS)

	2006-07	2007-08	2008-09
Deficit/(Surplus)	2.4	1.5	–
Adjustments for:			
Non-Cash Items Included in Deficit	1.2	1.7	1.4
Amortization of Major Tangible Capital Assets	(0.9)	(1.0)	(1.0)
Acquisitions of Major Tangible Capital Assets	2.2	2.4	2.2
Debt Maturities			
Currently Outstanding	14.5	12.9	19.5
Incremental Impact of Future Refinancing	–	1.5	2.1
Subtotal	14.5	14.4	21.6
Debt Redemptions	0.7	0.7	0.7
Canada Pension Plan Borrowing	(0.4)	(0.4)	(0.6)
Increase/(Decrease) in Cash and Cash Equivalents	–	–	–
Decrease/(Increase) in Short-Term Borrowing	1.0	–	–
Other Uses/(Sources) of Cash	(0.9)	0.2	0.5
Total Long-Term Public Borrowing Requirement	19.9	19.5	24.8

* Second-quarter fiscal forecast as at September 30, 2005. If the reserve is not required in 2006-07, the deficit would fall to \$0.9 billion. The deficit would be eliminated in 2007-08 if the reserve is also not required in that year.

Note: Numbers may not add due to rounding.

Refinancing maturing debt remains the primary component of the 2006-07 to 2008-09 Medium-Term Borrowing Outlook. Debt Maturities for the Province and OEFC are projected at \$14.5 billion in 2006-07, \$14.4 billion in 2007-08 and \$21.6 billion in 2008-09.

In managing the borrowing program, the OFA will maintain a flexible financing approach and monitor domestic and international bond markets continuously, seeking out the most cost-effective borrowing opportunities.

The OFA will also continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

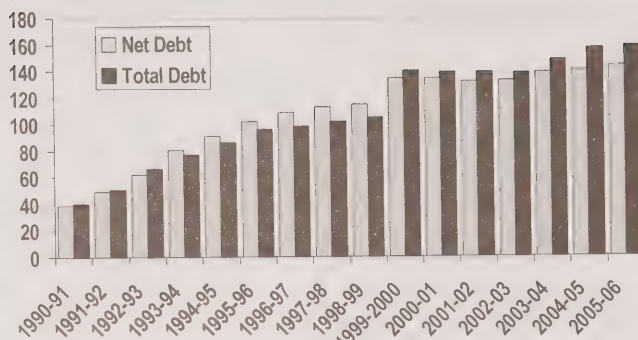
The Province's Total Debt is \$156.9 billion as of September 30, 2005. Total Debt is projected at \$158.7 billion as of March 31, 2006.

Ontario's Net Debt, the difference between total liabilities and total financial assets of the Province, was \$140.7 billion as of March 31, 2005 and is projected at \$144.0 billion as of March 31, 2006.

The Ontario Strategic Infrastructure Financing Authority's (OSIFA) debt of \$1.3 billion, as of September 30, 2005, is included in the Province's Total Debt, but not in the Province's Net Debt, as OSIFA's debt is offset by net assets of \$1.3 billion. OSIFA's debt is not guaranteed by the Province.

Debt

(\$ Billions)



Source: Ontario Public Accounts 1991-2005, Ontario Ministry of Finance, Ontario Financing Authority (September 30, 2005).

TOTAL DEBT COMPOSITION

Total Debt of \$156.9 billion as of September 30, 2005 is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.

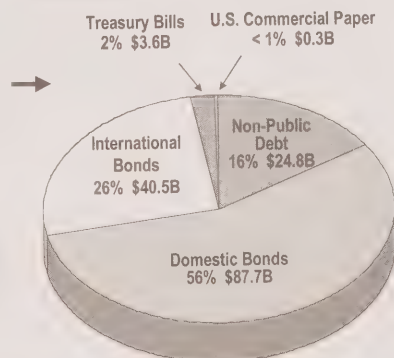
As of September 30, 2005, public debt totalled \$132.1 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had \$24.8 billion outstanding in non-public debt issued in Canadian dollars.

Total Debt Composition

C\$156.9 billion

Debt issued outside of Canada in the following currencies:

- Canadian dollar
- U.S. dollar
- Euro
- Japanese yen
- Sterling
- Swiss franc
- Australian dollar
- New Zealand dollar
- Hong Kong dollar
- South African rand



Source: Ontario Financing Authority (September 30, 2005).

DEBT MANAGEMENT

The Province mitigates financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

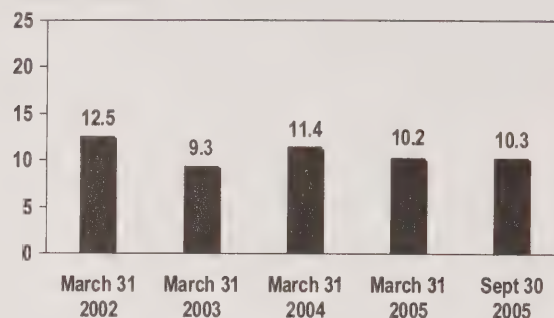
The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

The Province's interest rate reset and foreign exchange exposures have remained well below policy limits during the first half of 2005-06.

In fiscal 2004-05, the OFA's cost-effective management of the borrowing program, debt portfolio and short-term investments contributed \$150.2 million in savings relative to the OFA's benchmarks, thereby lowering interest on debt.

Interest Rate Reset Exposure

Percentage of Debt Issued
for Provincial Purposes

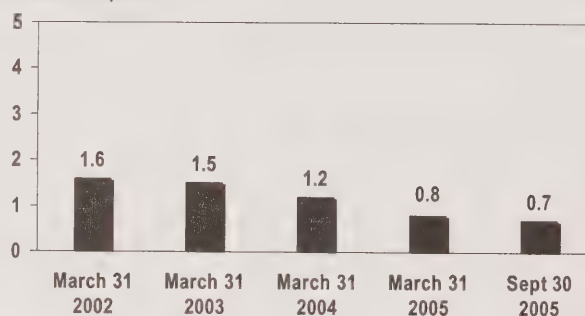


Source: Ontario Financing Authority (September 30, 2005).

Excludes OEFC debt.

Foreign Exchange Exposure

Percentage of Debt Issued
for Provincial Purposes



Source: Ontario Financing Authority (September 30, 2005).

Excludes OEFC debt.

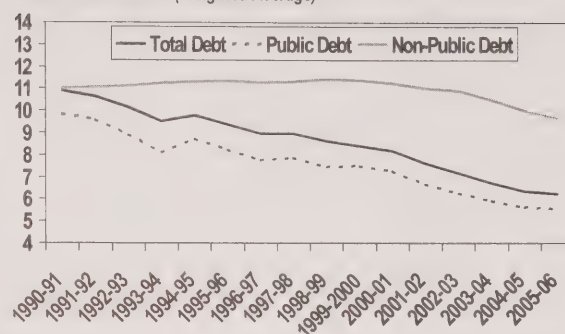
COST OF DEBT

As of September 30, 2005, the effective interest rate on Total Debt (on a weighted-average basis) was 6.2 per cent compared to 6.4 per cent on March 31, 2005 and 10.9 per cent on March 31, 1991.

The effective interest rate on public debt as of September 30, 2005 was 5.6 per cent, compared to 9.7 per cent on non-public debt. As of March 31, 2005, the effective interest rate on public debt was 5.7 per cent and 10.0 per cent on non-public debt.

Effective Interest Rate (Weighted Average) of Debt

Effective Interest Rate (Weighted Average)



Source: Ontario Public Accounts 1991-2005 and Ontario Financing Authority (September 30, 2005).

GLOSSARY OF FINANCIAL TERMS DESCRIBED IN ANNEX IV

Amortization of Major Tangible Assets: the allocation to expenditure of the amortization cost of major tangible assets acquired in the current and prior years but not yet fully amortized.

Acquisitions of Major Tangible Capital Assets: the cost of purchasing or building major tangible assets owned by the Province, including land, buildings, highways and bridges during the year.

Canada Pension Plan Borrowing: the Province has the option of borrowing from the Canada Pension Plan as a source of long-term borrowing.

Debt Maturities: total forecasted amount of debt including debt with early retirement features that will be due for repayment in the fiscal year (excludes Treasury Bills and other short-term obligations).

Debt Redemptions: total forecasted amount of variable and step-up Ontario Savings Bonds expected to be redeemed in the fiscal year.

Domestic Bonds: debt securities issued in the domestic market, clearing through the domestic clearing system.

Euro Medium-Term Notes (EMTNs): issued outside the United States and Canada and structured to meet individual investor requirements.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index, and pay out at a predetermined yield spread to the index.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies including Canadian and U.S. dollars.

Increase/(Decrease) in Cash and Cash Equivalents: the change in cash and other short-term liquid instruments.

Medium-Term Notes (MTNs): debt instruments offered under a registered program and structured to meet specific investor needs.

Non-Cash Items Included in Deficit: adjustments to the Deficit (reported on an accrual basis) to determine cash flows to be used in operating activities. Non-cash adjustments include revenues that are earned but not received and/or expenses that were recognized but cash was not paid during the fiscal year.

Pre-funding: borrowing undertaken in the present fiscal year for borrowing requirements in the next fiscal year.

Real Return Bonds (RRBs): debt securities that pay investors a rate of return that is adjusted for inflation using the Canadian Consumer Price Index (CPI).

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Syndicated Issues: debt securities that are underwritten by a group of investment dealers.

Treasury Bills: short-term debt instruments issued by governments on a discount basis usually for durations of 91 days, 182 days or 52 weeks.

U.S. Commercial Paper (CP): short-term debt typically issued by a government or corporation on a discount basis. CP is limited to terms of 1 to 270 days.

ANNEX V

FISCAL TABLES AND GRAPHS

MEDIUM-TERM FISCAL PLAN AND OUTLOOK
(\$ BILLIONS)

TABLE 1

	Actual	Outlook*			
	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue	77.8	82.1	84.8	88.5	92.2
Expense					
Programs	67.0	71.3	73.4	76.0	77.9
Capital	3.0	2.7	2.5	2.1	2.1
Interest on Debt	9.4	9.6	9.9	10.3	10.7
Total Expense	79.4	83.5	85.7	88.5	90.7
Surplus/(Deficit) Before Reserve	(1.6)	(1.4)	(0.9)	0.0	1.5
Reserve	–	1.0	1.5	1.5	1.5
Surplus/(Deficit)	(1.6)	(2.4)	(2.4)	(1.5)	0.0
Net Debt†	140.7	144.0	147.7	150.7	151.8
Accumulated Deficit†	125.7	128.1	130.5	132.0	132.0
Gross Domestic Product (GDP) at Market Prices	516.8	538.0	562.2	589.2	618.7
Net Debt as a per cent of GDP	27.2	26.8	26.3	25.6	24.5
Accumulated Deficit as a per cent of GDP	24.3	23.8	23.2	22.4	21.3

* Second-quarter fiscal forecast as at September 30, 2005.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Numbers may not add due to rounding.

2005-06 FISCAL OUTLOOK—IN-YEAR CHANGE
(\$ MILLIONS)

TABLE 2

	Budget Plan 2005-06	Outlook* 2005-06	In-Year Change
Revenue	81,687	82,132	445
Expense			
Programs	71,014	71,257	243
Capital	2,673	2,673	–
Interest on Debt	9,796	9,571	(225)
Total Expense	83,483	83,501	18
Surplus/(Deficit) Before Reserve	(1,796)	(1,369)	427
Reserve	1,000	1,000	–
Surplus/(Deficit)	(2,796)	(2,369)	427

* Second-quarter fiscal forecast as at September 30, 2005.

Source: Ontario Ministry of Finance.

REVENUE
(\$ MILLIONS)

TABLE 3

	2001-02	2002-03	2003-04	Actual 2004-05	Outlook* 2005-06
Taxation Revenue					
Personal Income Tax	19,097	18,195	18,301	19,320	20,251
Retail Sales Tax	13,803	14,183	14,258	14,855	15,475
Corporations Tax	6,646	7,459	6,658	9,883	9,488
Employer Health Tax	3,502	3,589	3,753	3,886	4,033
Ontario Health Premium	—	—	—	1,737	2,422
Gasoline Tax	2,192	2,306	2,264	2,277	2,288
Fuel Tax	659	682	681	727	733
Tobacco Tax	703	1,183	1,350	1,453	1,511
Land Transfer Tax	665	814	909	1,043	1,056
Electricity Payments-In-Lieu of Taxes	387	711	627	511	656
Other Taxes	371	429	347	283	258
	48,025	49,551	49,148	55,975	58,171
Government of Canada**					
Canada Health and Social Transfer (CHST)	5,831	7,346	7,345	—	—
Canada Health Transfer (CHT)	—	—	—	5,640	7,127
Canada Social Transfer (CST)***	—	—	—	2,912	3,311
CHST Supplements	380	191	577	775	584
Social Housing	524	525	528	522	520
Infrastructure Programs	—	97	150	209	293
Wait Times Reduction Fund	—	—	—	242	243
Medical Equipment Funds	190	—	192	387	194
Other Government of Canada	829	735	1,101	1,195	901
	7,754	8,894	9,893	11,882	13,173
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,255	2,288	2,106	1,992	1,941
Liquor Control Board of Ontario	904	939	1,045	1,147	1,186
Ontario Power Generation Inc. and Hydro One Inc.	179	717	(17)	444	887
Other Government Enterprises	7	(2)	(64)	(5)	5
	3,345	3,942	3,070	3,578	4,019
Other Non-Tax Revenue					
Reimbursements	1,592	1,111	1,206	1,241	1,319
Electricity Debt Retirement Charge	—	889	1,000	997	1,018
Vehicle and Driver Registration Fees	941	982	985	976	1,017
Power Sales	815	635	510	610	961
Other Fees and Licences	474	606	594	506	510
Liquor Licence Revenue	530	530	488	489	502
Net Reduction of Power Purchase Contract Liability	—	161	104	236	396
Sales and Rentals	344	560	532	352	369
Royalties	224	304	248	278	236
Miscellaneous Other Non-Tax Revenue	2,490	726	622	721	441
	7,410	6,504	6,289	6,406	6,769
Total Revenue	66,534	68,891	68,400	77,841	82,132

* Second-quarter fiscal forecast as at September 30, 2005.

** Health Reform Fund included in CHST in 2003-04 and CHT in 2004-05.

*** Includes 2005 Federal Budget additional Early Learning and Child Care revenues of \$272 million in 2005-06.

REVENUE – IN-YEAR CHANGE
(\$ MILLIONS)

TABLE 4

	Budget Plan 2005-06	Outlook* 2005-06	In-Year Change
Taxation Revenue			
Personal Income Tax	20,026	20,251	225
Retail Sales Tax	15,475	15,475	–
Corporations Tax	9,248	9,488	240
Employer Health Tax	4,033	4,033	–
Ontario Health Premium	2,422	2,422	–
Gasoline Tax	2,308	2,288	(20)
Fuel Tax	733	733	–
Tobacco Tax	1,511	1,511	–
Land Transfer Tax	1,056	1,056	–
Electricity Payments-In-Lieu of Taxes	656	656	–
Other Taxes	258	258	–
	57,726	58,171	445
Government of Canada			
Canada Health and Social Transfer (CHST)	–	–	–
Canada Health Transfer (CHT)	7,127	7,127	–
Canada Social Transfer (CST)**	3,311	3,311	–
CHST Supplements	584	584	–
Social Housing	520	520	–
Infrastructure Programs	293	293	–
Wait Times Reduction Fund	243	243	–
Medical Equipment Funds	194	194	–
Other Government of Canada	901	901	–
	13,173	13,173	–
Income from Investment in Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,941	1,941	–
Liquor Control Board of Ontario	1,186	1,186	–
Ontario Power Generation Inc. and Hydro One Inc.	887	887	–
Other Government Enterprises	5	5	–
	4,019	4,019	–
Other Non-Tax Revenue			
Reimbursements	1,319	1,319	–
Electricity Debt Retirement Charge	1,018	1,018	–
Vehicle and Driver Registration Fees	1,017	1,017	–
Power Sales	961	961	–
Other Fees and Licences	510	510	–
Liquor Licence Revenue	502	502	–
Net Reduction of Power Purchase Contract Liability	396	396	–
Sales and Rentals	369	369	–
Royalties	236	236	–
Miscellaneous Other Non-Tax Revenue	441	441	–
	6,769	6,769	–
Total Revenue	81,687	82,132	445

* Second-quarter fiscal forecast as at September 30, 2005.

** Includes 2005 Federal Budget additional Early Learning and Child Care revenues of \$272 million in 2005-06.

OPERATING EXPENSE
(\$ MILLIONS)

TABLE 5

Ministry	2001-02	2002-03	2003-04	Actual 2004-05	Outlook* 2005-06
Agriculture, Food and Rural Affairs**	456	598	703	699	605
One-Time and Extraordinary Assistance	319	18	—	458†	—
Attorney General	995	1,052	1,199	1,175	1,199
Board of Internal Economy	124	146	196	145	167
Children and Youth Services	2,244	2,431	2,640	2,831	3,196
Citizenship and Immigration**	61	55	55	65	76
Community and Social Services**	5,812	5,846	5,999	6,372	6,603
Community Safety and Correctional Services	1,513	1,656	1,666	1,718	1,753
Culture	279	331	303	280	275
Democratic Renewal Secretariat	—	—	—	2	4
Economic Development and Trade**	88	102	87	80	448
Education**	8,419	9,071	9,733	10,565	11,340
Teachers' Pension Plan (TPP)	42	238	235	240	290
Energy	367	144	116	142	148
Environment	265	237	261	300	314
Executive Offices	19	20	24	19	19
Finance – Own Account**	1,182	1,074	1,229	1,049	1,092
Interest on Debt	10,337	9,694	9,604	9,368	9,571
Community Reinvestment Fund/Ontario Municipal Partnership Fund	557	622	651	626	662
Community Reinvestment Fund One-Time Transition Funding	—	—	—	233	—
Electricity Consumer Price Protection Fund	—	665	253	—	—
Power Purchases	815	786	797	840	961
Contingency Fund**	—	—	—	—	450
Government Services**	471	327	457	889	663
Pension and Other Employee Future Benefits**	63	102	309	458	735
Health and Long-Term Care**	23,793	25,660	27,880	30,797	32,718
SARS-Related and Major One-Time Health Costs	—	—	824	—	—
Health Promotion**	143	157	172	198	254
Intergovernmental Affairs	6	9	6	13	9
Labour	110	123	117	129	146
Municipal Affairs and Housing**	1,136	636	632	701	643
Natural Resources	438	454	516	484	584
Northern Development and Mines	75	73	76	78	116
Office of Francophone Affairs	5	3	3	3	4
Public Infrastructure Renewal***††	(22)	89	(16)	29	51
Research and Innovation**	132	139	165	191	235
Secretariat for Aboriginal Affairs	13	16	15	19	45
Tourism**	130	118	193	146	139
Training, Colleges and Universities**	3,218	3,392	3,808	4,187	4,688
Transportation	664	814	800	848	975
Year-End Savings	—	—	—	—	(350)
Total Operating Expense	64,269	66,898	71,708	76,377	80,828

* Second-quarter fiscal forecast as at September 30, 2005.

** Preliminary allocations and historical restatements reflecting new ministry structure, pending finalization of restructuring currently underway.

† One-time and Extraordinary Assistance refers to spending above "normal" levels due to unforeseen events. In 2004-05, low commodity prices and other unforeseen events resulted in one-time assistance totalling \$458 million to producers including grain and oil seed producers and tobacco producers.

†† Credit expense amounts relate to consolidation adjustments between Ontario Realty Corporation (ORC) and ministries to reflect the net capital spending for the year.

OPERATING EXPENSE – IN-YEAR CHANGE
(\$ MILLIONS)

TABLE 6

Ministry	Budget Plan 2005-06	Outlook* 2005-06	In-Year Change
Agriculture, Food and Rural Affairs**	605	605	–
Attorney General	1,199	1,199	–
Board of Internal Economy	167	167	–
Children and Youth Services	3,196	3,196	–
Citizenship and Immigration**	76	76	–
Community and Social Services**	6,603	6,603	–
Community Safety and Correctional Services	1,753	1,753	–
Culture	275	275	–
Democratic Renewal Secretariat	4	4	–
Economic Development and Trade**	448	448	–
Education**	11,340	11,340	–
Teachers' Pension Plan (TPP)	290	290	–
Energy	148	148	–
Environment	314	314	–
Executive Offices	19	19	–
Finance – Own Account**	1,092	1,092	–
Interest on Debt	9,796	9,571	(225)
Ontario Municipal Partnership Fund	662	662	–
Power Purchases	961	961	–
Contingency Fund**	557	450	(107)
Government Services**	663	663	–
Pension and Other Employee Future Benefits**	514	735	221
Health and Long-Term Care**	32,718	32,718	–
Health Promotion**	254	254	–
Intergovernmental Affairs	8	9	1
Labour	146	146	–
Municipal Affairs and Housing**	643	643	–
Natural Resources	492	584	92
Northern Development and Mines	111	116	5
Office of Francophone Affairs	4	4	–
Public Infrastructure Renewal**	51	51	–
Research and Innovation**	235	235	–
Secretariat for Aboriginal Affairs	14	45	31
Tourism**	139	139	–
Training, Colleges and Universities**	4,688	4,688	–
Transportation	975	975	–
Year-End Savings	(350)	(350)	–
Total Operating Expense	80,810	80,828	18

* Second-quarter fiscal forecast as at September 30, 2005.

** Budget Plan and Outlook reflect new ministry structure, pending finalization of restructuring currently underway.

CAPITAL EXPENSE
(\$ MILLIONS)

TABLE 7

Ministry	2001-02	2002-03	2003-04	Actual 2004-05	Outlook* 2005-06
Agriculture, Food and Rural Affairs**	29	68	204	243	271
Attorney General	46	43	24	34	75
Children and Youth Services	6	7	—	4	109
Community and Social Services**	25	16	10	20	33
Community Safety and Correctional Services	88	66	47	32	48
Culture	14	42	24	64	115
Economic Development and Trade**	1	2	2	5	2
Education**	20	13	19	54	10
Energy	50	46	53	52	49
Environment	20	13	4	7	13
Finance**	11	8	5	25	4
Government Services**	3	4	5	8	12
Health and Long-Term Care**	205	339	358	535	339
Health Promotion**	—	—	—	—	5
Municipal Affairs and Housing**	12	20	3	34	132
Natural Resources	70	72	111	79	53
Northern Development and Mines††	371	229	113	242	264
Public Infrastructure Renewal***, †††	25	4	(19)	43	33
Capital Contingency Fund	—	—	—	—	117
Research and Innovation**	18	19	29	71	80
Secretariat for Aboriginal Affairs	3	2	—	2	3
Tourism**	9	55	51	65	88
Training, Colleges and Universities**	46	68	116	417	131
Transportation††	818	740	1,016	983	837
Year-End Savings	—	—	—	—	(150)
Total Capital Expense***	1,890	1,876	2,175	3,019	2,673

* Second-quarter fiscal forecast as at September 30, 2005.

** Preliminary allocations and historical restatements reflecting new ministry structure, pending finalization of restructuring currently underway.

*** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Ministries' contributions for investments in Provincially owned land and buildings are recorded as an expense by the contributing ministries. Starting in 2002-03, any resulting adjustment to expense from the capitalization and amortization of most of these Provincially owned land and buildings is recorded in the Ministry of Public Infrastructure Renewal.

†† Prior year expenses restated to reflect the change in accounting treatment introduced in the 2004-05 Public Accounts, to disclose spending on northern highways in the ministry that carries out these activities.

††† Credit expense amounts relate to consolidation adjustments between Ontario Realty Corporation (ORC) and ministries to reflect the net capital spending for the year.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

CAPITAL EXPENSE – IN-YEAR CHANGE
(\$ MILLIONS)

TABLE 8

Ministry	Budget Plan 2005-06	Outlook* 2005-06	In-Year Change
Agriculture, Food and Rural Affairs**	271	271	–
Attorney General	75	75	–
Children and Youth Services	109	109	–
Community and Social Services**	33	33	–
Community Safety and Correctional Services	48	48	–
Culture	115	115	–
Economic Development and Trade**	2	2	–
Education**	10	10	–
Energy	49	49	–
Environment	13	13	–
Finance**	4	4	–
Government Services**	12	12	–
Health and Long-Term Care**	339	339	–
Health Promotion**	5	5	–
Municipal Affairs and Housing**	132	132	–
Natural Resources	53	53	–
Northern Development and Mines†	421	264	(157)
Public Infrastructure Renewal**	33	33	–
Capital Contingency Fund	175	117	(58)
Research and Innovation**	80	80	–
Secretariat for Aboriginal Affairs	3	3	–
Tourism**	88	88	–
Training, Colleges and Universities**	131	131	–
Transportation†	622	837	215
Year-End Savings	(150)	(150)	–
Total Capital Expense	2,673	2,673	–

* Second-quarter fiscal forecast as at September 30, 2005.

** Budget Plan and Outlook reflect new ministry structure, pending finalization of restructuring currently underway.

† Prior year expenses restated to reflect the change in accounting treatment introduced in the 2004-05 Public Accounts, to disclose spending on northern highways in the ministry that carries out these activities.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

SCHEDULE OF NET INVESTMENT IN CAPITAL ASSETS
(\$ MILLIONS)

TABLE 9

	2005-06 Outlook*			Total
	Land and Buildings	Transportation Infrastructure	Government Organizations' Capital Assets	
Acquisition/Construction of Major Tangible Capital Assets	160	1,131	526	1,817
Amortization of Provincially Owned Major Tangible Capital Assets	(84)	(534)	(206)	(824)
Net Investment in Capital Assets	76	597	320	993

* Second-quarter fiscal forecast as at September 30, 2005.

Source: Ontario Ministry of Public Infrastructure Renewal.

**GROSS CAPITAL INVESTMENT
(\$ MILLIONS)**

TABLE 10

		Outlook* 2005-06
Transportation		
Transit	571	
Highways	1,135	
Other Transportation	110	
		1,816
Health		354
Postsecondary Education		131
Water/Environment		292
Municipal and Local Infrastructure**		535
Justice		123
Other		415
Total Gross Capital Investment***		3,666
Less: Net Investment in Capital Assets		993
Total Capital Expense		2,673

* Second-quarter fiscal forecast as at September 30, 2005.

** Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

*** Total gross capital investment includes flow-throughs of \$531 million.

Source: Ontario Ministry of Public Infrastructure Renewal.

TEN-YEAR REVIEW OF SELECTED FINANCIAL AND ECONOMIC STATISTICS

(\$ MILLIONS)

	1996-97	1997-98	1998-99
Financial Transactions			
Revenue	49,714	52,782	56,050
Expense			
Programs	45,400	45,568	46,821
Capital**	2,612	2,451	2,215
Interest on Debt	8,607	8,729	9,016
Total Expense	56,619	56,748	58,052
Surplus/(Deficit) Before Reserve	(6,905)	(3,966)	(2,002)
Reserve	—	—	—
Surplus/(Deficit)	(6,905)	(3,966)	(2,002)
Net Debt†	108,769	112,735	114,737
Accumulated Deficit†	108,769	112,735	114,737
Gross Domestic Product (GDP) at Market Prices	338,173	359,353	377,897
Personal Income	276,303	289,537	304,652
Population—July (000s)	11,083	11,228	11,367
Net Debt per Capita (dollars)	9,814	10,041	10,094
Personal Income per Capita (dollars)	24,930	25,787	26,801
Total Expense as a per cent of GDP	16.7	15.8	15.4
Interest on Debt as a per cent of Revenue	17.3	16.5	16.1
Net Debt as a per cent of GDP	32.2	31.4	30.4
Accumulated Deficit as a per cent of GDP	32.2	31.4	30.4

* Second-quarter fiscal forecast as at September 30, 2005.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

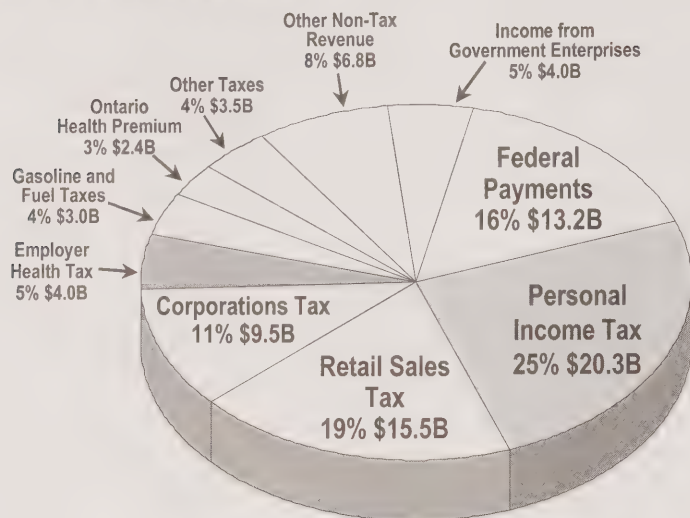
Sources: Ontario Ministry of Finance and Statistics Canada.

TABLE 11

1999-00	2000-01	2001-02	2002-03	2003-04	Actual 2004-05	Outlook* 2005-06
65,042	66,294	66,534	68,891	68,400	77,841	82,132
48,460	51,396	53,932	57,204	62,104	67,009	71,257
4,887	2,123	1,890	1,876	2,175	3,019	2,673
11,027	10,873	10,337	9,694	9,604	9,368	9,571
64,374	64,392	66,159	68,774	73,883	79,396	83,501
668	1,902	375	117	(5,483)	(1,555)	(1,369)
—	—	—	—	—	—	1,000
668	1,902	375	117	(5,483)	(1,555)	(2,369)
134,398	132,496	132,121	132,647	138,557	140,662	144,024
134,398	132,496	132,121	118,705	124,188	125,743	128,112
409,020	440,759	453,959	477,911	493,802	516,844	538,035
321,702	347,653	361,189	370,153	381,245	395,600	412,112
11,506	11,685	11,898	12,102	12,260	12,407	12,541
11,681	11,339	11,104	10,961	11,302	11,337	11,484
27,959	29,752	30,357	30,586	31,097	31,885	32,861
15.7	14.6	14.6	14.4	15.0	15.4	15.5
17.0	16.4	15.5	14.1	14.0	12.0	11.7
32.9	30.1	29.1	27.8	28.1	27.2	26.8
32.9	30.1	29.1	24.8	25.1	24.3	23.8

Composition of Revenue

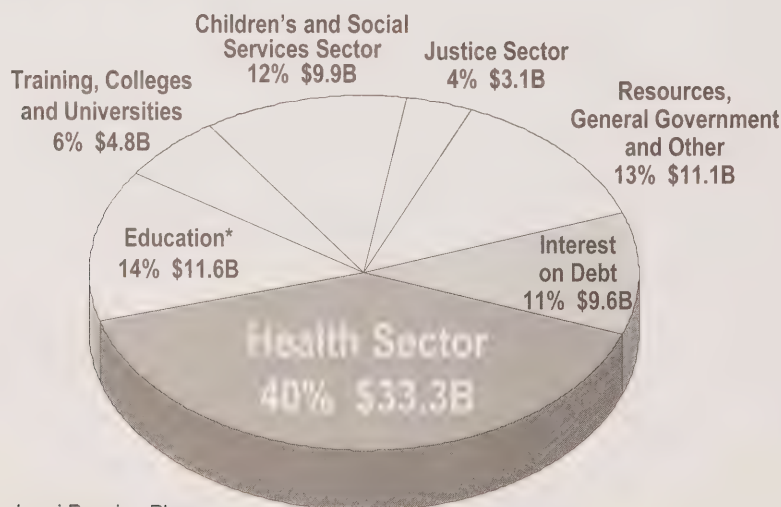
\$82.1B in 2005-06



Note: Numbers may not add due to rounding.

Composition of Total Expense

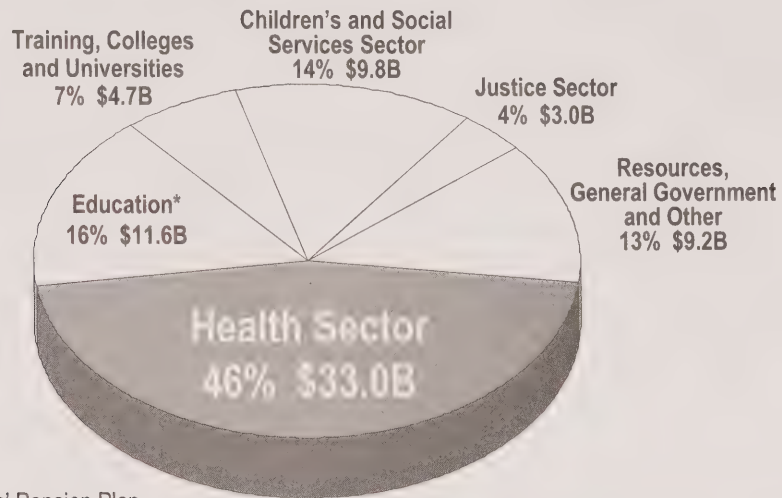
\$83.5B in 2005-06



* Includes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

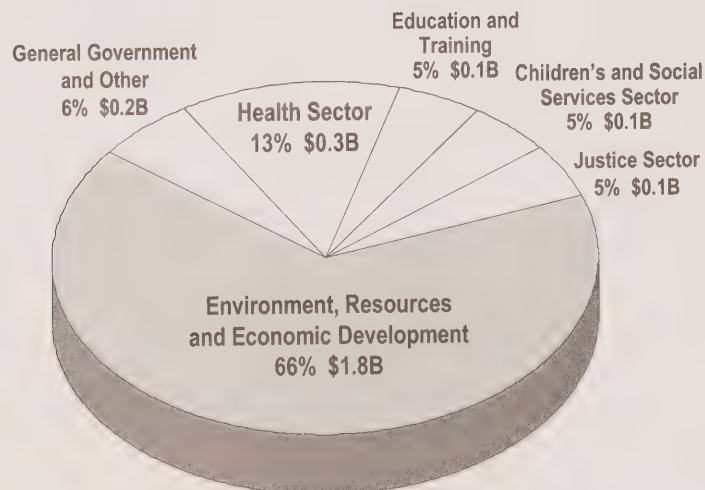
Composition of Program Expense \$71.3B in 2005-06



* Includes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

Composition of Capital Expense \$2.7B in 2005-06



Note: Numbers may not add due to rounding.

ANNEX VI

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(Note: Data in the tables may not add to totals due to rounding.)

TABLE 1	ONTARIO, GROSS DOMESTIC PRODUCT, 1991-2004						
	(\$ Billions)						
	1991	1992	1993	1994	1995	1996	1997
Real GDP (chained \$1997)	304.5	307.2	310.2	328.5	340.1	343.8	359.4
Consumption	172.9	175.3	177.7	183.1	186.6	190.9	200.1
Government	72.3	72.6	72.1	72.9	73.3	70.6	70.5
Residential Construction	16.3	17.1	15.6	15.9	13.7	15.0	17.2
Non-residential Construction	12.5	10.9	8.8	7.8	7.5	9.2	10.0
Machinery and Equipment	18.0	18.5	17.7	20.2	22.3	23.7	29.3
Exports	159.4	165.5	179.4	198.1	213.8	225.6	242.6
Imports	142.2	149.8	158.7	169.4	180.5	189.4	213.3
Nominal Gross Domestic Product	283.1	286.5	293.4	311.1	329.3	338.2	359.4

TABLE 1 (CONTINUED)	(\$ Billions)						
	1998	1999	2000	2001	2002	2003	2004
Real GDP (chained \$1997)	376.7	405.0	429.1	436.8	450.1	457.6	470.3
Consumption	207.1	216.6	227.2	232.3	241.3	248.9	256.9
Government	72.0	75.1	77.8	81.3	84.5	88.3	91.1
Residential Construction	16.8	18.8	20.1	22.2	24.3	25.1	26.1
Non-residential Construction	10.2	11.3	10.0	10.0	10.2	10.3	9.8
Machinery and Equipment	31.3	34.2	36.2	34.9	32.4	35.4	38.1
Exports	260.4	289.8	312.5	304.4	308.6	307.6	323.8
Imports	223.3	241.9	259.6	247.2	251.8	262.1	280.0
Nominal Gross Domestic Product	377.9	409.0	440.8	454.0	477.9	493.8	516.8

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 2**ONTARIO, GROWTH IN GROSS DOMESTIC PRODUCT, 1991-2004****(Per Cent Change)**

	1991	1992	1993	1994	1995	1996	1997
Real GDP (chained \$1997)	-3.9	0.9	1.0	5.9	3.5	1.1	4.5
Consumption	-1.9	1.4	1.3	3.1	1.9	2.3	4.8
Government	4.5	0.4	-0.7	1.1	0.7	-3.7	-0.1
Residential Construction	-15.9	4.5	-8.7	2.0	-14.0	9.6	14.5
Non-residential Construction	-4.9	-12.9	-18.7	-12.2	-2.7	21.5	9.2
Machinery and Equipment	-7.2	2.4	-4.4	14.6	9.9	6.7	23.3
Exports	-3.0	3.9	8.4	10.4	7.9	5.6	7.5
Imports	-0.7	5.3	5.9	6.8	6.6	4.9	12.6
Nominal Gross Domestic Product	0.1	1.2	2.4	6.0	5.9	2.7	6.3

TABLE 2 (CONTINUED)**(Per Cent Change)**

	1998	1999	2000	2001	2002	2003	2004
Real GDP (chained \$1997)	4.8	7.5	5.9	1.8	3.0	1.7	2.8
Consumption	3.5	4.6	4.9	2.2	3.9	3.2	3.2
Government	2.0	4.4	3.6	4.6	3.9	4.5	3.1
Residential Construction	-1.8	11.6	7.1	10.0	9.6	3.2	4.1
Non-residential Construction	1.6	11.4	-11.8	-0.3	2.4	1.3	-5.2
Machinery and Equipment	6.8	9.4	5.9	-3.8	-7.0	9.2	7.7
Exports	7.3	11.3	7.8	-2.6	1.4	-0.3	5.3
Imports	4.7	8.4	7.3	-4.8	1.9	4.1	6.9
Nominal Gross Domestic Product	5.2	8.2	7.8	3.0	5.3	3.3	4.7

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 3	ONTARIO, SELECTED ECONOMIC INDICATORS, 1991-2004						
	1991	1992	1993	1994	1995	1996	1997
Retail Sales (\$ Billions)	69.6	71.5	74.5	80.0	83.3	83.8	90.9
Housing Starts - Units (000s)	52.8	55.8	45.1	46.6	35.8	43.1	54.1
Personal Income (\$ Billions)	247.7	253.8	256.1	260.7	271.4	276.3	289.5
Pre-tax Corporate Profits (\$ Billions)	14.6	14.5	17.9	27.9	33.1	34.2	37.5
Consumer Price Index (1992 = 100)	99.0	100.0	101.8	101.8	104.3	105.9	107.9
Labour Force (000s)	5,545	5,526	5,542	5,544	5,584	5,673	5,771
Employment (000s)	5,015	4,929	4,935	5,009	5,093	5,158	5,283
Unemployment Rate (%)	9.6	10.8	11.0	9.7	8.8	9.1	8.4

TABLE 3 (CONTINUED)	1998	1999	2000	2001	2002	2003	2004
Retail Sales (\$ Billions)	97.5	104.6	111.5	114.3	121.0	125.1	129.1
Housing Starts - Units (000s)	53.8	67.2	71.5	73.3	83.6	85.2	85.1
Personal Income (\$ Billions)	304.7	321.7	347.7	361.2	370.2	381.2	395.6
Pre-tax Corporate Profits (\$ Billions)	39.5	49.7	54.4	49.6	59.2	57.4	65.9
Consumer Price Index (1992 = 100)	108.9	111.0	114.2	117.7	120.1	123.3	125.6
Labour Force (000s)	5,876	6,016	6,170	6,327	6,499	6,672	6,775
Employment (000s)	5,451	5,633	5,814	5,926	6,035	6,208	6,316
Unemployment Rate (%)	7.2	6.4	5.8	6.3	7.1	7.0	6.8

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

TABLE 4**ONTARIO, SELECTED ECONOMIC INDICATORS, ANNUAL CHANGE, 1991-2004****(Per Cent Change)**

	1991	1992	1993	1994	1995	1996	1997
Retail Sales	NA	2.7	4.2	7.5	4.0	0.7	8.5
Housing Starts	-15.7	5.6	-19.1	3.3	-23.2	20.2	25.6
Personal Income	2.5	2.5	0.9	1.8	4.1	1.8	4.8
Pre-tax Corporate Profits	-26.0	-0.8	23.1	55.8	18.7	3.3	9.9
Consumer Price Index	4.7	1.0	1.8	0.0	2.5	1.5	1.9
Labour Force	0.2	-0.3	0.3	0.0	0.7	1.6	1.7
Employment	-3.4	-1.7	0.1	1.5	1.7	1.3	2.4

TABLE 4 (CONTINUED)**(Per Cent Change)**

	1998	1999	2000	2001	2002	2003	2004
Retail Sales	7.2	7.3	6.6	2.5	5.9	3.4	3.2
Housing Starts	-0.4	24.9	6.4	2.5	14.1	1.9	-0.1
Personal Income	5.2	5.6	8.1	3.9	2.5	3.0	3.8
Pre-tax Corporate Profits	5.2	25.9	9.3	-8.7	19.3	-2.9	14.7
Consumer Price Index	0.9	1.9	2.9	3.1	2.0	2.7	1.9
Labour Force	1.8	2.4	2.6	2.5	2.7	2.7	1.5
Employment	3.2	3.3	3.2	1.9	1.8	2.9	1.7

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

TABLE 5

BUSINESS CYCLES IN ONTARIO

Recessions			Recoveries and Expansions	
Recession Quarters	Length (Quarters)	Peak-to-trough decline in real GDP	Expansion Quarters	Length (Quarters)
1954:1 – 54:2	2	-1.5%	1954:3 – 57:3	13
1957:4 – 58:2	3	-1.7%	1958:3 – 74:3	65
1974:4 – 75:1	2	-0.6%	1975:2 – 79:3	18
1979:4 – 80:3	4	-2.2%	1980:4 – 81:4	5
1982:1 – 82:3	3	-5.2%	1982:4 – 89:4	29
1990:1 – 91:1	5	-7.7%	1991:2 – 92:1	4
1992:2 – 92:3	2	-0.9%	1992:4 – 2003:1	41
2003:2 – 2003:3	2	-1.0%	2003:4 –	
Average	3	-2.6%	Average	25
Weighted by length of recession		-3.3%		

Source: Ontario Ministry of Finance.

TABLE 6

**ONTARIO, REAL GROSS DOMESTIC PRODUCT
BY INDUSTRY AT BASIC PRICES, 2001-2004**

(\$1997 Chained Millions)

	2001	2002	2003	2004
Goods Producing Industries	123,349	127,407	128,011	131,293
Primary	7,642	7,810	7,708	8,174
Utilities	10,042	10,115	9,826	9,929
Construction	19,961	21,055	21,946	21,776
Manufacturing ¹	85,502	88,306	88,266	91,414
Services Producing Industries	279,905	288,918	295,338	304,671
Wholesale Trade	26,496	28,147	29,777	31,745
Retail Trade	20,943	21,549	22,209	22,929
Transportation and Warehousing	16,567	16,855	16,997	17,635
Information and Cultural (incl. Telecommunications)	17,465	18,323	18,925	19,004
Finance, Insurance, Real Estate, Rental and Leasing	88,161	91,373	93,010	96,178
Professional and Administrative Services	30,098	31,306	32,142	32,788
Education	17,023	16,746	16,806	17,044
Health Care and Social Services	22,033	22,670	23,457	24,151
Arts, Entertainment and Recreation	3,744	4,027	4,147	4,164
Accommodation and Food	9,016	9,120	8,594	8,746
Other Services	9,279	9,488	9,581	9,707
Public Administration	19,492	19,944	20,548	20,923
Total Production	403,543	416,813	423,890	435,703

Note:

1. See Table 8 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 7 **ONTARIO, GROWTH IN REAL GROSS DOMESTIC PRODUCT**
BY INDUSTRY AT BASIC PRICES, 2001-2004

(Per Cent Change)

	2001	2002	2003	2004
Goods Producing Industries	-2.2	3.3	0.5	2.6
Primary	-1.1	2.2	-1.3	6.0
Utilities	1.7	0.7	-2.9	1.1
Construction	7.6	5.5	4.2	-0.8
Manufacturing ¹	-4.9	3.3	0.0	3.6
Services Producing Industries	3.6	3.2	2.2	3.2
Wholesale Trade	1.0	6.2	5.8	6.6
Retail Trade	4.9	2.9	3.1	3.2
Transportation and Warehousing	3.0	1.7	0.8	3.8
Information and Cultural (incl. Telecommunications)	9.4	4.9	3.3	0.4
Finance, Insurance, Real Estate, Rental and Leasing	6.0	3.6	1.8	3.4
Professional and Administrative Services	-0.3	4.0	2.7	2.0
Education	0.1	-1.6	0.4	1.4
Health Care and Social Services	2.6	2.9	3.5	3.0
Arts, Entertainment and Recreation	5.1	7.6	3.0	0.4
Accommodation and Food	3.7	1.2	-5.8	1.8
Other Services	3.4	2.2	1.0	1.3
Public Administration	1.7	2.3	3.0	1.8
Total Production	1.8	3.3	1.7	2.8

Note:

1. See Table 9 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 8

**ONTARIO, REAL GROSS DOMESTIC PRODUCT AT BASIC PRICES
IN SELECTED MANUFACTURING INDUSTRIES, 2001-2004**

(\$1997 Chained Millions)

	2001	2002	2003	2004
Manufacturing	85,502	88,306	88,266	91,414
Food, Beverage and Tobacco Products	9,712	9,718	9,518	10,013
Textile, Clothing and Leather Products	2,059	2,022	1,858	1,789
Wood Products and Furniture	4,863	5,147	5,296	5,352
Paper Products and Printing	6,543	6,742	6,995	6,849
Chemical and Petroleum Products	8,168	8,565	8,842	9,456
Plastic and Rubber Products	5,543	6,160	6,057	6,170
Primary Metal and Fabricated Metal Products	12,177	12,595	12,336	12,783
Machinery	6,262	6,419	6,154	6,337
Electrical and Electronic Products	8,080	6,931	6,982	7,435
Transportation Equipment	17,874	18,952	19,126	20,147
Other Manufacturing	3,949	4,113	4,312	4,348

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 9 **ONTARIO, GROWTH IN REAL GROSS DOMESTIC PRODUCT AT BASIC PRICES**
IN SELECTED MANUFACTURING INDUSTRIES, 2001-2004
(Per Cent Change)

	2001	2002	2003	2004
Manufacturing	-4.9	3.3	0.0	3.6
Food, Beverage and Tobacco Products	3.5	0.1	-2.1	5.2
Textile, Clothing and Leather Products	-7.1	-1.8	-8.1	-3.7
Wood Products and Furniture	2.6	5.8	2.9	1.0
Paper Products and Printing	4.0	3.0	3.7	-2.1
Chemical and Petroleum Products	9.1	4.9	3.2	6.9
Plastic and Rubber Products	-5.2	11.1	-1.7	1.9
Primary Metal and Fabricated Metal Products	-3.8	3.4	-2.1	3.6
Machinery	-4.1	2.5	-4.1	3.0
Electrical and Electronic Products	-26.3	-14.2	0.7	6.5
Transportation Equipment	-10.8	6.0	0.9	5.3
Other Manufacturing	3.9	4.1	4.8	0.8

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 10

ONTARIO, HOUSING MARKET INDICATORS, 2001-2004

			2001	2002	2003	2004
New Housing Market						
Residential Construction	Current \$ Millions		24,678	28,331	30,751	33,854
	Per Cent Change		13.3	14.8	8.5	10.1
Real Residential Construction	(\$1997 Millions)		22,164	24,299	25,069	26,096
	Per Cent Change		10.0	9.6	3.2	4.1
Housing Starts	(Units)		73,282	83,597	85,180	85,114
	Per Cent Change		2.5	14.1	1.9	-0.1
Of which: Single-detached, urban areas	(Units)		34,861	44,980	40,849	41,101
	Per Cent Change		-2.0	29.0	-9.2	0.6
Multiple, urban areas	(Units)		35,401	34,635	40,082	38,795
	Per Cent Change		11.1	-2.2	15.7	-3.2
New Housing Price Index	(1997 = 100)		110.8	114.9	120.0	126.7
	Per Cent Change		3.1	3.7	4.4	5.6
Resale Market						
Home Resales	(Units)		162,318	178,058	184,457	197,354
	Per Cent Change		10.3	9.7	3.6	7.0
Average Resale Price	(\$)		193,357	210,901	226,824	245,229
	Per Cent Change		5.2	9.1	7.5	8.1

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ontario Ministry of Finance.

TABLE 11**SELECTED FINANCIAL INDICATORS, 1991-2004**

(Per Cent)

	1991	1992	1993	1994	1995	1996	1997
Interest Rates							
Bank Rate	9.0	6.8	5.1	5.8	7.1	4.5	3.5
Prime Rate	9.9	7.5	5.9	6.9	8.6	6.1	5.0
10-Year Government Bonds	9.4	8.1	7.2	8.4	8.1	7.2	6.1
Three-month T-Bills	8.7	6.6	4.8	5.5	6.9	4.2	3.3
Mortgage Rates							
5-Year Rate	11.1	9.5	8.8	9.5	9.2	7.9	7.1
1-Year Rate	10.1	7.9	6.9	7.8	8.4	6.2	5.5
Canadian Household Debt Burden*							
Consumer	21.5	21.3	21.3	22.7	23.5	24.6	26.2
Mortgage	55.8	59.2	62.2	65.3	65.4	67.1	68.5
Total	77.3	80.5	83.5	88.0	88.9	91.8	94.7

TABLE 11 (CONTINUED)

(Per Cent)

	1998	1999	2000	2001	2002	2003	2004
Interest Rates							
Bank Rate	5.1	4.9	5.8	4.3	2.7	3.2	2.5
Prime Rate	6.6	6.4	7.3	5.8	4.2	4.7	4.0
10-Year Government Bonds	5.3	5.6	5.9	5.5	5.3	4.8	4.6
Three-month T-Bills	4.7	4.7	5.5	3.8	2.6	2.9	2.2
Mortgage Rates							
5-Year Rate	6.9	7.6	8.3	7.4	7.0	6.4	6.2
1-Year Rate	6.5	6.8	7.9	6.1	5.2	4.8	4.6
Canadian Household Debt Burden*							
Consumer	27.7	28.3	29.7	30.3	31.1	32.8	34.8
Mortgage	69.0	68.6	67.1	66.7	69.1	72.0	75.9
Total	96.6	96.9	96.8	97.0	100.2	104.7	110.8

* Household debt as a share of personal disposable income.

Note: All data are annual averages.

Sources: Statistics Canada and Bank of Canada.

TABLE 12**ONTARIO AND THE G-7, REAL GROSS DOMESTIC PRODUCT GROWTH, 1991-2004****(Per Cent)**

	1991	1992	1993	1994	1995	1996	1997
Ontario	-3.9	0.9	1.0	5.9	3.5	1.1	4.5
Canada	-2.1	0.9	2.3	4.8	2.8	1.6	4.2
France	1.0	1.3	-0.9	1.9	1.8	1.0	1.9
Germany	5.1	1.8	-1.1	2.4	1.8	0.8	1.5
Italy	1.4	0.7	-0.9	2.3	3.0	1.0	2.0
Japan	3.4	1.0	0.2	1.1	2.0	3.4	1.8
United Kingdom	-1.4	0.2	2.3	4.4	2.9	2.8	3.3
United States	-0.2	3.3	2.7	4.0	2.5	3.7	4.5

TABLE 12 (CONTINUED)**(Per Cent)**

	1998	1999	2000	2001	2002	2003	2004
Ontario	4.8	7.5	5.9	1.8	3.0	1.7	2.8
Canada	4.1	5.5	5.2	1.8	3.4	2.0	2.9
France	3.6	3.2	4.2	2.1	1.1	0.5	2.3
Germany	1.7	1.9	3.1	1.0	0.1	-0.1	1.0
Italy	1.7	1.7	3.2	1.7	0.4	0.4	1.0
Japan	-1.0	-0.1	2.4	0.2	-0.3	1.5	2.6
United Kingdom	3.1	2.9	3.9	2.3	1.8	2.2	3.1
United States	4.2	4.5	3.7	0.8	1.6	2.7	4.2

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. These numbers are working-day adjusted and hence may differ from the basis used for official projections.

Sources: OECD, U.S. Bureau of Economic Analysis and Statistics Canada.

TABLE 13**ONTARIO AND THE G-7, EMPLOYMENT GROWTH, 1991-2004**

(Per Cent)

	1991	1992	1993	1994	1995	1996	1997
Ontario	-3.4	-1.7	0.1	1.5	1.7	1.3	2.4
Canada	-1.7	-1.0	0.5	2.1	1.7	0.9	2.1
France	0.2	-0.6	-1.2	0.1	0.9	0.4	0.4
Germany	1.7	-1.9	-1.8	-0.2	0.1	-0.3	-0.1
Italy	1.4	-1.1	-4.1	-1.6	-0.6	0.5	0.4
Japan	1.9	1.1	0.2	0.1	0.1	0.4	1.1
United Kingdom	-3.2	-2.8	-0.7	1.0	1.1	0.9	1.8
United States	-0.9	0.7	1.5	2.3	1.5	1.5	2.3

TABLE 13 (CONTINUED)

(Per Cent)

	1998	1999	2000	2001	2002	2003	2004
Ontario	3.2	3.3	3.2	1.9	1.8	2.9	1.7
Canada	2.5	2.6	2.6	1.3	2.4	2.3	1.8
France	1.5	2.0	2.7	1.7	0.7	-0.1	-0.1
Germany	1.2	1.4	1.9	0.4	-0.6	-1.0	0.4
Italy	1.1	1.3	1.9	2.1	1.5	1.0	0.3
Japan	-0.7	-0.8	-0.2	-0.5	-1.3	-0.2	0.2
United Kingdom	1.0	1.4	1.2	0.8	0.8	0.9	0.9
United States	1.5	1.5	2.5	0.0	-0.3	0.9	1.1

Sources: IMF and Statistics Canada.

TABLE 14**ONTARIO AND THE G-7, UNEMPLOYMENT RATES, 1991-2004****(Per Cent)**

	1991	1992	1993	1994	1995	1996	1997
Ontario	9.6	10.8	11.0	9.7	8.8	9.1	8.4
Canada	10.3	11.2	11.4	10.4	9.6	9.7	9.2
France	9.5	10.4	11.7	12.1	11.5	12.1	12.1
Germany	5.3	6.2	7.5	8.0	7.7	8.4	9.2
Italy	8.6	8.8	10.2	11.2	11.7	11.7	11.8
Japan	2.1	2.2	2.5	2.9	3.2	3.4	3.4
United Kingdom	7.9	9.9	10.4	9.5	8.6	8.1	7.0
United States	6.8	7.5	6.9	6.1	5.6	5.4	4.9

TABLE 14 (CONTINUED)**(Per Cent)**

	1998	1999	2000	2001	2002	2003	2004
Ontario	7.2	6.4	5.8	6.3	7.1	7.0	6.8
Canada	8.4	7.6	6.8	7.2	7.7	7.6	7.2
France	11.5	10.8	9.4	8.7	9.0	9.8	10.0
Germany	8.7	8.0	7.3	7.4	8.2	9.1	9.3
Italy	11.9	11.5	10.7	9.6	9.1	8.8	8.1
Japan	4.1	4.7	4.7	5.0	5.4	5.3	4.7
United Kingdom	6.2	6.0	5.5	5.1	5.2	5.0	4.7
United States	4.5	4.2	4.0	4.8	5.8	6.0	5.5

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature.

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

TABLE 15**ONTARIO AND THE G-7, CPI INFLATION RATES, 1991-2004**

(Per Cent)

	1991	1992	1993	1994	1995	1996	1997
Ontario	4.7	1.0	1.8	0.0	2.5	1.5	1.9
Canada	5.6	1.5	1.8	0.2	2.2	1.6	1.6
France	3.4	2.5	2.2	1.7	1.8	2.1	1.3
Germany	4.1	5.1	4.4	2.7	1.7	1.2	1.5
Italy	6.2	5.0	4.5	4.2	5.4	4.0	1.9
Japan	3.2	1.7	1.3	0.7	-0.1	0.1	1.7
United Kingdom	7.5	4.2	2.5	2.0	2.7	2.5	1.8
United States	4.2	3.0	3.0	2.6	2.8	3.0	2.3

TABLE 15 (CONTINUED)

(Per Cent)

	1998	1999	2000	2001	2002	2003	2004
Ontario	0.9	1.9	2.9	3.1	2.0	2.7	1.9
Canada	0.9	1.7	2.7	2.6	2.2	2.8	1.9
France	0.7	0.6	1.8	1.8	1.9	2.2	2.3
Germany	0.6	0.6	1.4	1.9	1.3	1.0	1.8
Italy	2.0	1.7	2.6	2.3	2.6	2.8	2.3
Japan	0.7	-0.3	-0.7	-0.7	-0.9	-0.3	0.0
United Kingdom	1.6	1.3	0.8	1.2	1.3	1.4	1.3
United States	1.6	2.2	3.4	2.8	1.6	2.3	2.7

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

TABLE 16**G-7, EXCHANGE RATES, 1991-2004**

(Foreign Currency per Canadian Dollar)

	1991	1992	1993	1994	1995	1996	1997
Euro*	—	—	—	—	—	—	—
France	4.925	4.380	4.390	4.066	3.637	3.752	4.211
Germany	1.449	1.292	1.282	1.188	1.044	1.104	1.251
Italy	1082.8	1019.6	1219.8	1180.7	1186.9	1131.6	1228.5
Japan	117.6	104.8	86.2	74.8	68.5	79.8	87.3
United Kingdom	0.495	0.471	0.517	0.478	0.462	0.470	0.441
United States	0.873	0.827	0.775	0.732	0.729	0.733	0.722

TABLE 16 (CONTINUED)

(Foreign Currency per Canadian Dollar)

	1998	1999	2000	2001	2002	2003	2004
Euro*	—	0.631	0.730	0.721	0.674	0.632	0.618
France	3.968	—	—	—	—	—	—
Germany	1.183	—	—	—	—	—	—
Italy	1168.2	—	—	—	—	—	—
Japan	87.8	76.3	72.6	78.4	79.7	82.7	83.1
United Kingdom	0.407	0.416	0.444	0.448	0.424	0.437	0.419
United States	0.674	0.673	0.673	0.646	0.637	0.714	0.768

* Introduced January 4, 1999.

Note: All data are annual averages.

Source: Bank of Canada.

TABLE 17**ONTARIO, INTERNATIONAL MERCHANDISE EXPORTS¹ BY MAJOR COMMODITY², 2004**

	Value (\$ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	74,886	41.9
Machinery and Mechanical Appliances	19,533	10.9
Electrical Machinery and Equipment	8,873	5.0
Non-ferrous Metals and Allied Products	8,140	4.5
Plastics and Plastic Articles	7,191	4.0
Pulp; Paper and Allied Products	5,653	3.2
Prepared Foodstuffs, Beverages and Tobacco	5,024	2.8
Furniture and Fixtures, Signs, Prefabricated Buildings	4,741	2.7
Precious Metals, Stones and Coins	3,920	2.2
Other Chemical Products	3,758	2.1
Iron and Steel	3,415	1.9
Wood and Wood Products	3,326	1.9
Mineral Products	3,300	1.8
Articles of Iron and Steel	3,266	1.8
Pharmaceutical Products	2,716	1.5
Scientific, Professional and Photo Equipment, Clocks	2,243	1.3
Rubber and Rubber Articles	1,869	1.0
Vegetable Products; Fats and Oils	1,818	1.0
Organic Chemicals	1,543	0.9
Live Animals; Animal Products	1,512	0.8
Inorganic Chemicals; Chemical Elements and Compounds	1,420	0.8
Textiles and Textile Articles	1,342	0.7
Articles of Stone, Cement, Ceramic and Glass	1,335	0.7
Aircraft, Spacecraft and Parts	1,120	0.6
Printed Matter	766	0.4
Apparel and Clothing Accessories	431	0.2
Hides, Leather, Travel Goods and Furs	307	0.2
Toys, Games and Sports Equipment	305	0.2
Railway, Rolling Stock and Parts	291	0.2
Miscellaneous Articles; Works of Art	226	0.1
Other Textile and Clothing Articles	213	0.1
Ships, Boats and Floating Structures	73	0.0
Footwear	27	0.0
Headgear, Umbrellas, Artificial Flowers	25	0.0
Other Commodities ³	4,298	2.4
Total Exports	178,907	100.0

Notes:

1. Domestic exports exclude re-exports.
2. Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.
3. Other Commodities includes special transactions.

Source: Industry Canada.

TABLE 18

ONTARIO, INTERNATIONAL MERCHANDISE IMPORTS BY MAJOR COMMODITY¹, 2004

	Value (\$ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	50,383	22.9
Machinery and Mechanical Appliances	39,673	18.0
Electrical Machinery and Equipment	24,283	11.0
Plastics and Plastic Articles	8,976	4.1
Scientific, Professional and Photo Equipment, Clocks	8,304	3.8
Other Chemical Products	7,990	3.6
Non-ferrous Metals and Allied Products	7,392	3.4
Pharmaceutical Products	6,162	2.8
Prepared Foodstuffs, Beverages and Tobacco	5,769	2.6
Mineral Products	5,283	2.4
Iron and Steel	4,777	2.2
Vegetable Products; Fats and Oils	4,361	2.0
Pulp; Paper and Allied Products	4,277	1.9
Furniture and Fixtures, Signs, Prefabricated Buildings	4,144	1.9
Articles of Iron and Steel	3,958	1.8
Organic Chemicals	3,713	1.7
Rubber and Rubber Articles	3,452	1.6
Articles of Stone, Cement, Ceramic and Glass	2,988	1.4
Textiles and Textile Articles	2,571	1.2
Apparel and Clothing Accessories	2,571	1.2
Printed Matter	2,437	1.1
Precious Metals, Stones and Coins	2,193	1.0
Toys, Games and Sports Equipment	1,950	0.9
Wood and Wood Products	1,499	0.7
Live Animals; Animal Products	1,495	0.7
Aircraft, Spacecraft and Parts	1,383	0.6
Inorganic Chemicals; Chemical Elements and Compounds	933	0.4
Railway, Rolling Stock and Parts	800	0.4
Hides, Leather, Travel Goods and Furs	768	0.3
Miscellaneous Articles; Works of Art	694	0.3
Footwear	690	0.3
Other Textile and Clothing Articles	542	0.2
Ships, Boats and Floating Structures	278	0.1
Headgear, Umbrellas, Artificial Flowers	166	0.1
Other Commodities ²	3,407	1.5
Total Imports	220,263	100.0

Notes:

1. Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.

2. Other Commodities includes trans-shipments from one province to another through a foreign jurisdiction and special transactions.

Source: Industry Canada.

TABLE 19 **ONTARIO, INTERNATIONAL MERCHANDISE TRADE¹ BY MAJOR REGION, 2004**

	Exports (\$ Millions)	Per Cent of Total	Imports (\$ Millions)	Per Cent of Total
United States	162,075	90.6	152,281	69.1
Western Europe	8,740	4.9	18,308	8.3
Eastern Europe	489	0.3	1,066	0.5
European Union	7,441	4.2	17,556	8.0
Asia	3,583	2.0	30,312	13.8
Oceania (Pacific)	832	0.5	706	0.3
Pacific Rim	4,183	2.3	29,742	13.5
Chinese Economic Area ²	1,464	0.8	14,721	6.7
Caribbean	278	0.2	175	0.1
Latin America	1,653	0.9	13,849	6.3
Mexico	1,010	0.6	11,111	5.0
Middle East	907	0.5	783	0.4
Africa	350	0.2	577	0.3
Re-imports (Canada)	0	0.0	2,205	1.0
Total	178,907	100.0	220,263	100.0

Notes:

1. Data are customs based and do not include re-exports.
2. Chinese Economic Area includes China, Hong Kong and Mongolia.

Source: Industry Canada.

TABLE 20**CANADA, INTERNATIONAL MERCHANDISE TRADE¹ BY MAJOR REGION, 2004**

	Exports (\$ Millions)	Per Cent of Total	Imports (\$ Millions)	Per Cent of Total
United States	326,016	84.7	208,954	58.8
Western Europe	22,330	5.8	47,455	13.3
Eastern Europe	1,176	0.3	3,152	0.9
European Union	20,645	5.4	42,000	11.8
Asia	22,958	6.0	58,877	16.6
Oceania (Pacific)	1,927	0.5	2,341	0.7
Pacific Rim	23,503	6.1	58,423	16.4
Chinese Economic Area ²	7,261	1.9	24,874	7.0
Caribbean	870	0.2	1,420	0.4
Latin America	5,856	1.5	20,969	5.9
Mexico	2,871	0.7	13,409	3.8
Middle East	2,277	0.6	3,890	1.1
Africa	1,620	0.4	4,980	1.4
Re-imports (Canada)	0	0.0	3,528	1.0
Total	385,034	100.0	355,567	100.0

Notes:

1. Data are customs based and do not include re-exports.
2. Chinese Economic Area includes China, Hong Kong and Mongolia.

Source: Industry Canada.

TABLE 21 **ONTARIO, SELECTED DEMOGRAPHIC CHARACTERISTICS, 1986-2005¹**

	Intercensal Estimates			Postcensal Estimates ²				
	1986	1991	1996	2001	2002	2003	2004	2005 ⁵
Total Population (000s)	9,438	10,428	11,083	11,898	12,102	12,260	12,407	12,541
Annual Average Growth								
Over Preceding Year Shown (%)	1.4	2.0	1.2	1.4	1.7	1.3	1.2	1.1
Median Age (Years)	31.9	33.3	35.0	36.7	37.0	37.4	37.7	NA
Age Group Shares (%)								
0-4	6.8	7.0	6.8	6.0	5.8	5.6	5.4	NA
5-14	13.4	13.1	13.5	13.5	13.4	13.2	13.0	NA
15-24	17.1	14.5	13.2	13.4	13.4	13.5	13.5	NA
25-44	32.1	34.2	32.9	31.5	31.3	30.9	30.6	NA
45-64	19.8	19.6	21.3	23.2	23.6	24.2	24.7	NA
65-74	6.5	7.0	7.3	7.0	6.9	6.9	6.9	NA
75+	4.2	4.6	5.0	5.6	5.7	5.8	5.9	NA
Total Fertility Rate ³	1.6	1.7	1.6	1.5	1.5	1.5	NA	NA
Life Expectancy (Years) ³								
Female	80.0	80.8	81.3	82.2	82.2	NA	NA	NA
Male	73.7	75.0	75.9	77.5	77.7	NA	NA	NA
Families (000s) ⁴	2,445	2,727	2,933	3,191	NA	NA	NA	NA
Households (000s) ⁴	3,222	3,638	3,925	4,219	NA	NA	NA	NA

Notes:

1. Population figures are for July 1 (census year).
2. Estimates by Statistics Canada based on the 2001 Census adjusted for net Census undercoverage.
3. Calendar-year data.
4. Families and Households are Census data.
5. Not released as at October 25, 2005.

Source: Statistics Canada.

TABLE 22**ONTARIO, COMPONENTS OF POPULATION GROWTH, 1995-96 TO 2004-05¹**

	(Thousands)				
	1995-96	1996-97	1997-98	1998-99	1999-00
Population at Beginning of Period	10,950	11,083	11,228	11,367	11,506
Births	143	136	133	131	131
Deaths	78	80	80	80	81
Immigrants	116	119	106	92	117
Net Emigrants ³	25	27	26	24	24
Net Change in Non-permanent Residents	-10	-3	-3	6	16
Interprovincial Arrivals	69	70	75	73	79
Interprovincial Departures	72	68	66	56	57
Population Growth During Period	133	145	139	139	179
Population at End of Period²	11,083	11,228	11,367	11,506	11,685
Population Growth (%)	1.2	1.3	1.2	1.2	1.6

TABLE 22 (CONTINUED)

	(Thousands)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Population at Beginning of Period	11,685	11,898	12,102	12,260	12,407
Births	128	129	129	131	131
Deaths	81	81	84	86	89
Immigrants	150	153	110	128	130
Net Emigrants ³	23	19	20	20	20
Net Change in Non-permanent Residents	21	17	21	2	-10
Interprovincial Arrivals	75	70	64	57	62
Interprovincial Departures	56	65	64	64	71
Population Growth During Period	212	204	158	148	134
Population at End of Period²	11,898	12,102	12,260	12,407	12,541
Population Growth (%)	1.8	1.7	1.3	1.2	1.1

Notes:

1. Data are from July 1 to June 30 (census year).
2. The sum of the components does not equal the total change in population due to residual deviation.
3. Net Emigrants = Emigrants plus temporarily abroad minus returning emigrants.

Source: Statistics Canada. Estimates based on the 2001 Census adjusted for net Census undercoverage.

TABLE 23**ONTARIO, LABOUR FORCE, 1991-2004**

	1991	1992	1993	1994	1995	1996	1997
Labour Force (000s)	5,545	5,526	5,542	5,544	5,584	5,673	5,771
Annual Labour Force Growth (%)	0.2	-0.3	0.3	0.0	0.7	1.6	1.7
Participation Rate (%)							
Male	76.4	75.1	74.3	73.4	72.7	72.5	72.8
Female	61.0	59.8	59.4	58.7	58.5	58.8	58.9
Share of Labour Force (%)							
Youth (15-24)	18.6	18.1	17.3	16.8	16.4	16.2	15.9
Older Workers (45+)	26.6	27.4	28.1	28.8	29.1	29.5	30.2

TABLE 23 (CONTINUED)

	1998	1999	2000	2001	2002	2003	2004
Labour Force (000s)	5,876	6,016	6,170	6,327	6,499	6,672	6,775
Annual Labour Force Growth (%)	1.8	2.4	2.6	2.5	2.7	2.7	1.5
Participation Rate (%)							
Male	72.5	73.1	73.3	73.4	73.7	74.3	74.1
Female	59.6	60.2	61.0	61.4	62.1	62.9	63.0
Share of Labour Force (%)							
Youth (15-24)	15.8	16.1	16.4	16.3	16.4	16.3	16.2
Older Workers (45+)	30.7	31.4	32.0	32.6	33.4	34.7	35.4

Source: Statistics Canada.

TABLE 24**ONTARIO, EMPLOYMENT, 1991-2004**

	1991	1992	1993	1994	1995	1996	1997
Total Employment (000s)	5,015	4,929	4,935	5,009	5,093	5,158	5,283
Male	2,718	2,657	2,670	2,711	2,758	2,786	2,867
Female	2,297	2,272	2,264	2,298	2,334	2,372	2,417
Annual Employment Growth (%)	-3.4	-1.7	0.1	1.5	1.7	1.3	2.4
Net Job Creation (000s)	-176	-86	5	74	84	66	125
Private-sector Employment (000s)	3,368	3,271	3,246	3,315	3,431	3,507	3,560
Public-sector Employment (000s)	983	983	968	964	938	893	872
Self-employment (000s)	664	675	720	730	723	759	852
Manufacturing Employment (% of total)	18.1	17.5	16.7	16.8	17.3	17.6	17.7
Services Employment (% of total)	71.6	72.6	73.7	73.7	73.5	73.5	73.3
Part-time (% of total)	18.2	18.5	19.6	19.0	18.8	19.3	19.2
Average Hours Worked Per Week ¹	37.4	36.7	37.2	37.6	37.3	37.6	37.8

TABLE 24 (CONTINUED)

	1998	1999	2000	2001	2002	2003	2004
Total Employment (000s)	5,451	5,633	5,814	5,926	6,035	6,208	6,316
Male	2,936	3,036	3,123	3,168	3,212	3,298	3,350
Female	2,515	2,597	2,691	2,758	2,824	2,910	2,966
Annual Employment Growth (%)	3.2	3.3	3.2	1.9	1.8	2.9	1.7
Net Job Creation (000s)	168	182	181	112	110	173	108
Private-sector Employment (000s)	3,707	3,815	3,929	4,051	4,115	4,240	4,276
Public-sector Employment (000s)	867	922	982	996	1,036	1,047	1,106
Self-employment (000s)	877	896	903	878	884	922	935
Manufacturing Employment (% of total)	18.1	18.5	18.6	18.0	18.2	17.8	17.6
Services Employment (% of total)	73.2	72.7	72.8	73.5	73.4	73.6	73.9
Part-time (% of total)	18.7	18.0	18.0	17.9	18.3	18.5	18.1
Average Hours Worked Per Week ¹	37.8	38.0	38.1	37.5	37.3	36.6	37.1

Note:

1. Average actual hours worked per week at all jobs, excluding persons not at work, in reference week.

Source: Statistics Canada.

TABLE 25	ONTARIO, UNEMPLOYMENT, 1991-2004						
	1991	1992	1993	1994	1995	1996	1997
Total Unemployment (000s)	530	597	608	535	491	515	488
Unemployment Rate (%)	9.6	10.8	11.0	9.7	8.8	9.1	8.4
Male	10.1	12.0	11.6	10.1	8.9	9.1	8.2
Female	9.0	9.4	10.3	9.1	8.7	9.1	8.8
Toronto CMA ¹	9.6	11.3	11.3	10.4	8.6	9.1	8.0
Northern Ontario	11.5	12.8	12.7	11.8	10.1	10.9	10.5
Youth (15-24)	15.0	17.6	17.7	15.7	14.8	15.0	16.4
Older Workers (45+)	6.8	7.6	7.7	7.1	6.5	6.4	6.0
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	22.5	29.9	33.5	32.6	29.5	28.2	25.5
Youth (15-24)	29.3	29.5	28.0	27.3	27.6	26.7	30.9
Older Workers (45+)	19.0	19.2	19.8	21.2	21.6	20.9	21.5
Average Duration (weeks) ²	18.5	23.5	27.0	27.7	25.9	24.8	26.6
Youth (15-24)	13.5	16.8	18.3	17.9	16.3	15.4	13.8
Older Workers (45+)	22.6	30.1	34.1	35.0	33.4	31.1	42.2
TABLE 25 (CONTINUED)	1998	1999	2000	2001	2002	2003	2004
Total Unemployment (000s)	425	383	356	401	463	464	459
Unemployment Rate (%)	7.2	6.4	5.8	6.3	7.1	7.0	6.8
Male	7.2	6.2	5.6	6.5	7.4	7.1	6.9
Female	7.3	6.5	6.0	6.2	6.8	6.8	6.6
Toronto CMA ¹	7.0	6.1	5.5	6.3	7.4	7.7	7.5
Northern Ontario	11.1	9.2	8.3	8.0	8.1	7.4	7.8
Youth (15-24)	14.4	13.2	11.8	12.5	13.9	14.4	14.2
Older Workers (45+)	5.4	4.2	4.0	4.4	4.7	4.7	4.5
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	21.9	19.1	15.4	12.8	15.5	16.2	15.5
Youth (15-24)	31.5	33.5	33.7	32.2	31.9	33.9	34.0
Older Workers (45+)	22.7	20.9	22.4	22.8	22.1	23.5	23.4
Average Duration (weeks) ²	23.2	21.3	17.8	15.3	16.4	17.0	16.1
Youth (15-24)	12.8	11.6	9.8	8.6	9.4	9.4	8.8
Older Workers (45+)	39.0	34.2	28.4	25.7	24.5	27.3	24.2

Notes:

1. CMA is Census Metropolitan Area. Toronto CMA includes the City of Toronto; the Regions of York, Peel and Halton (excluding Burlington); Uxbridge, Pickering, Ajax, Mono, Orangeville, New Tecumseth and Bradford West Gwillimbury.
2. Prior to 1997, unemployment of 100 or more weeks was recorded as 99 due to data processing limitations. This restriction was removed for data after 1996.

Source: Statistics Canada.

TABLE 26**ONTARIO, EMPLOYMENT INSURANCE (EI) AND SOCIAL ASSISTANCE, 1991-2004**

	1991	1992	1993	1994	1995	1996	1997
EI Regular Beneficiaries (000s)	319	322	294	228	181	180	151
EI Maximum Insurable Earnings (\$) ¹	680	710	745	780	815	750	39,000
EI Maximum Weekly Entitlement (\$)	408	426	425	429	448	413	413
EI Premium Rate							
Employer (\$/\$100 Insurable Earnings)	3.15/3.92 ²	4.20	4.20	4.30	4.20	4.13	4.06
Employee (\$/\$100 Insurable Earnings)	2.25/2.80 ²	3.00	3.00	3.07	3.00	2.95	2.90
EI Total Benefits Paid (\$ millions) ³	5,362	5,845	5,406	4,511	3,796	3,653	3,436
EI Premiums Paid (\$ millions) ³	6,220	7,353	7,567	8,067	7,929	7,582	8,173
Social Assistance Caseload (000s) ⁵	499	608	660	673	660	599	568

TABLE 26 (CONTINUED)

	1998	1999	2000	2001	2002	2003	2004
EI Regular Beneficiaries (000s)	131	110	101	122	136	142	136
EI Maximum Insurable Earnings (\$) ¹	39,000	39,000	39,000	39,000	39,000	39,000	39,000
EI Maximum Weekly Entitlement (\$)	413	413	413	413	413	413	413
EI Premium Rate							
Employer (\$/\$100 Insurable Earnings)	3.78	3.57	3.36	3.15	3.08	2.94	2.77
Employee (\$/\$100 Insurable Earnings)	2.70	2.55	2.40	2.25	2.20	2.10	1.98
EI Total Benefits Paid (\$ millions) ³	3,141	3,051	2,787	3,524	4,328	4,342	4,429
EI Premiums Paid (\$ millions) ³	7,679	7,614	7,671	7,477	7,392	7,188 ⁴	6,723 ⁴
Social Assistance Caseload (000s) ⁵	529	479	436	408	411	413	418

Notes:

1. Effective January 1, 1997, the maximum weekly insurable earnings of \$750 was eliminated and replaced with an annual maximum set at \$39,000.
2. Premium rates for 1991 changed at mid-year.
3. Employment Insurance benefit payments are on a cash basis; premiums are paid on an accrual basis.
4. Premiums paid in 2003 and 2004 are Ontario Ministry of Finance estimates.
5. The number of social assistance cases from 1998 to 2004 includes Ontario Works, the Ontario Disability Support Program, Temporary Care Assistance and Assistance for Children with Severe Disabilities. The *Ontario Works Act* was proclaimed in May 1998 and replaced the *General Welfare Act*. The *Ontario Disability Support Program Act* was proclaimed in June 1998.

Sources: Statistics Canada, Human Resources and Skills Development Canada, Ontario Ministry of Finance and Ontario Ministry of Community and Social Services.

TABLE 27**ONTARIO, LABOUR COMPENSATION, 1991-2004**

	1991	1992	1993	1994	1995	1996	1997
Average Weekly Earnings (\$)¹	576.13	598.80	612.33	628.16	634.17	649.55	663.73
Increase (%)	NA	3.9	2.3	2.6	1.0	2.4	2.2
CPI Inflation (%)	4.7	1.0	1.8	0.0	2.5	1.5	1.9
AWE Increase Less CPI Inflation (%)	NA	2.9	0.5	2.6	-1.5	0.9	0.3
AWE – Manufacturing (\$)	683.30	716.55	739.20	761.95	770.80	794.09	821.28
Increase (%)	NA	4.9	3.2	3.1	1.2	3.0	3.4
Increase Less CPI Inflation (%)	NA	3.9	1.4	3.1	-1.3	1.5	1.5
Wage Settlement Increases (%)²							
All Sectors	4.7	2.7	1.0	0.4	1.0	1.1	1.2
Public	5.0	2.6	0.5	0.1	0.2	0.3	0.7
Private	3.8	2.7	1.9	1.1	1.7	2.2	2.3
Person Days Lost Due to Strikes and Lockouts (000s)	454	578	371	488	477	1,915	1,904
Minimum Wage at Year-end (\$/hour)	6.00	6.35	6.35	6.70	6.85	6.85	6.85

TABLE 27 (CONTINUED)

	1998	1999	2000	2001	2002	2003	2004
Average Weekly Earnings (\$)¹	672.67	683.70	700.12	712.88	726.21	734.78	748.10
Increase (%)	1.3	1.6	2.4	1.8	1.9	1.2	1.8
CPI Inflation (%)	0.9	1.9	2.9	3.1	2.0	2.7	1.9
AWE Increase Less CPI Inflation (%)	0.4	-0.3	-0.5	-1.3	-0.1	-1.5	-0.1
AWE – Manufacturing (\$)	841.78	852.13	869.40	882.76	906.10	917.84	934.23
Increase (%)	2.5	1.2	2.0	1.5	2.6	1.3	1.8
Increase Less CPI Inflation (%)	1.6	-0.7	-0.9	-1.6	0.6	-1.4	-0.1
Wage Settlement Increases (%)²							
All Sectors	1.6	2.1	2.6	3.0	3.0	3.1	2.8
Public	1.3	1.4	2.7	2.9	2.9	3.5	3.1
Private	2.1	3.1	2.4	3.0	3.0	1.9	2.6
Person Days Lost Due to Strikes and Lockouts (000s)	1,061	651	650	672	1,511	495	487
Minimum Wage at Year-end (\$/hour)	6.85	6.85	6.85	6.85	6.85	6.85	7.15

Notes:

1. Average Weekly Earnings (AWE) includes overtime. In 2001, Statistics Canada changed its estimates of AWE from the 1980 Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS). AWE based on NAICS is available only back to 1991.

2. Wage settlement increases are for collective agreements covering 200 or more employees, Ontario Ministry of Labour.

Sources: Statistics Canada, Ontario Ministry of Labour and Ontario Ministry of Finance.

TABLE 28**ONTARIO, EMPLOYMENT BY OCCUPATION, 1993-2004****(Thousands)**

	1993	1994	1995	1996	1997	1998
Management	523	505	544	536	547	553
Business, Finance and Administrative	972	978	983	981	974	1,012
Natural and Applied Sciences	268	273	304	294	327	355
Health	254	254	248	243	258	254
Social Science, Education, Government Service and Religion	387	425	395	396	397	418
Art, Culture, Recreation and Sport	140	147	142	149	150	158
Sales and Service	1,138	1,132	1,153	1,186	1,201	1,237
Trades, Transport and Equipment Operators	715	738	758	772	810	827
Primary Industry	154	148	142	141	142	138
Processing, Manufacturing and Utilities	383	408	424	460	478	500
Total	4,935	5,009	5,093	5,158	5,283	5,451

TABLE 28 (CONTINUED)**(Thousands)**

	1999	2000	2001	2002	2003	2004
Management	547	563	552	563	586	618
Business, Finance and Administrative	1,032	1,056	1,115	1,118	1,145	1,200
Natural and Applied Sciences	399	428	454	446	448	435
Health	264	278	293	322	332	345
Social Science, Education, Government Service and Religion	437	451	467	472	473	475
Art, Culture, Recreation and Sport	171	173	183	178	190	200
Sales and Service	1,282	1,339	1,358	1,392	1,450	1,432
Trades, Transport and Equipment Operators	819	834	852	867	891	904
Primary Industry	152	143	130	124	131	134
Processing, Manufacturing and Utilities	530	550	523	553	563	573
Total	5,633	5,814	5,926	6,035	6,208	6,316

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.

Source: Statistics Canada.

TABLE 29**ONTARIO, DISTRIBUTION OF EMPLOYMENT BY OCCUPATION, 1993-2004**

(Per Cent)

	1993	1994	1995	1996	1997	1998
Management	10.6	10.1	10.7	10.4	10.3	10.1
Business, Finance and Administrative	19.7	19.5	19.3	19.0	18.4	18.6
Natural and Applied Sciences	5.4	5.5	6.0	5.7	6.2	6.5
Health	5.1	5.1	4.9	4.7	4.9	4.7
Social Science, Education, Government Service and Religion	7.8	8.5	7.8	7.7	7.5	7.7
Art, Culture, Recreation and Sport	2.8	2.9	2.8	2.9	2.8	2.9
Sales and Service	23.1	22.6	22.6	23.0	22.7	22.7
Trades, Transport and Equipment Operators	14.5	14.7	14.9	15.0	15.3	15.2
Primary Industry	3.1	2.9	2.8	2.7	2.7	2.5
Processing, Manufacturing and Utilities	7.8	8.1	8.3	8.9	9.1	9.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 29 (CONTINUED)

(Per Cent)

	1999	2000	2001	2002	2003	2004
Management	9.7	9.7	9.3	9.3	9.4	9.8
Business, Finance and Administrative	18.3	18.2	18.8	18.5	18.4	19.0
Natural and Applied Sciences	7.1	7.4	7.7	7.4	7.2	6.9
Health	4.7	4.8	4.9	5.3	5.4	5.5
Social Science, Education, Government Service and Religion	7.8	7.8	7.9	7.8	7.6	7.5
Art, Culture, Recreation and Sport	3.0	3.0	3.1	2.9	3.1	3.2
Sales and Service	22.8	23.0	22.9	23.1	23.4	22.7
Trades, Transport and Equipment Operators	14.5	14.3	14.4	14.4	14.4	14.3
Primary Industry	2.7	2.5	2.2	2.1	2.1	2.1
Processing, Manufacturing and Utilities	9.4	9.5	8.8	9.2	9.1	9.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.

Source: Statistics Canada.

TABLE 30

ONTARIO, EMPLOYMENT BY INDUSTRY, 1995-2004

	(Thousands)				
	1995	1996	1997	1998	1999
Goods Producing Industries	1,347	1,368	1,408	1,461	1,535
Primary Industries	149	149	141	143	152
Agriculture	105	103	100	104	113
Manufacturing	880	907	938	986	1,042
Construction	267	261	282	285	295
Utilities	50	51	48	48	46
Services Producing Industries	3,745	3,790	3,875	3,990	4,098
Trade	763	781	802	809	845
Transportation and Warehousing	237	241	244	258	259
Finance, Insurance, Real Estate and Leasing	364	371	374	372	383
Professional, Scientific and Technical Services	300	313	349	375	397
Business, Building and Other Support	170	178	194	207	222
Educational Services	357	340	339	343	359
Health Care and Social Assistance	490	485	480	502	501
Information, Culture and Recreation	231	234	248	247	261
Accommodation and Food Services	291	311	316	334	338
Public Administration	305	290	277	281	280
Other Services	238	246	252	262	254
Total Employment	5,093	5,158	5,283	5,451	5,633

TABLE 30 (CONTINUED)

ONTARIO, EMPLOYMENT BY INDUSTRY, 1995-2004

(Thousands)

	2000	2001	2002	2003	2004
Goods Producing Industries	1,579	1,572	1,608	1,641	1,649
Primary Industries	134	119	112	113	113
Agriculture	99	83	77	82	79
Manufacturing	1,080	1,066	1,097	1,102	1,109
Construction	321	337	346	371	369
Utilities	45	50	52	54	58
Services Producing Industries	4,235	4,354	4,428	4,568	4,667
Trade	877	928	920	937	963
Transportation and Warehousing	274	278	279	289	300
Finance, Insurance, Real Estate and Leasing	381	390	389	409	430
Professional, Scientific and Technical Services	417	437	437	448	436
Business, Building and Other Support	240	242	247	264	277
Educational Services	365	357	368	375	390
Health Care and Social Assistance	537	563	584	613	636
Information, Culture and Recreation	283	302	297	293	304
Accommodation and Food Services	336	330	363	369	365
Public Administration	279	281	297	309	311
Other Services	245	246	246	262	257
Total Employment	5,814	5,926	6,035	6,208	6,316

Note: Industrial groupings based on North American Industry Classification System (NAICS).

Source: Statistics Canada.

TABLE 31

ONTARIO, GROWTH IN EMPLOYMENT BY INDUSTRY, 1995-2004

(Per Cent Change)

	1995	1996	1997	1998	1999
Goods Producing Industries	2.3	1.6	3.0	3.8	5.0
Primary Industries	-3.9	0.1	-5.5	1.0	6.3
Agriculture	-6.8	-1.1	-3.3	4.1	8.8
Manufacturing	4.4	3.0	3.4	5.2	5.7
Construction	-0.3	-2.4	7.9	1.2	3.5
Utilities	0.6	1.6	-5.5	-0.8	-2.7
Services Producing Industries	1.4	1.2	2.2	3.0	2.7
Trade	-0.5	2.4	2.7	0.8	4.4
Transportation and Warehousing	3.8	1.4	1.5	5.4	0.5
Finance, Insurance, Real Estate and Leasing	2.1	2.1	0.7	-0.4	2.9
Professional, Scientific and Technical Services	6.7	4.4	11.3	7.6	5.9
Business, Building and Other Support	7.7	4.6	8.9	7.0	6.9
Educational Services	-1.3	-4.8	-0.2	1.1	4.7
Health Care and Social Assistance	0.2	-0.9	-1.2	4.6	-0.1
Information, Culture and Recreation	5.5	1.2	6.1	-0.5	5.6
Accommodation and Food Services	1.4	7.1	1.5	5.8	1.2
Public Administration	-2.7	-5.0	-4.3	1.3	-0.4
Other Services	2.4	3.1	2.6	4.0	-3.2
Total Employment	1.7	1.3	2.4	3.2	3.3

TABLE 31 (CONTINUED)

ONTARIO, GROWTH IN EMPLOYMENT BY INDUSTRY, 1995-2004

	(Per Cent Change)				
	2000	2001	2002	2003	2004
Goods Producing Industries	2.9	-0.4	2.3	2.1	0.5
Primary Industries	-11.8	-10.9	-5.8	0.8	0.1
Agriculture	-12.9	-15.7	-7.2	5.7	-3.7
Manufacturing	3.6	-1.3	2.9	0.5	0.6
Construction	8.8	5.0	2.6	7.4	-0.8
Utilities	-3.5	12.1	4.6	2.9	8.2
Services Producing Industries	3.4	2.8	1.7	3.2	2.2
Trade	3.9	5.8	-0.9	1.8	2.8
Transportation and Warehousing	5.9	1.4	0.2	3.8	3.8
Finance, Insurance, Real Estate and Leasing	-0.5	2.3	-0.2	5.0	5.1
Professional, Scientific and Technical Services	5.1	4.7	0.0	2.6	-2.8
Business, Building and Other Support	8.2	0.8	2.3	6.7	5.0
Educational Services	1.8	-2.3	3.1	1.9	4.0
Health Care and Social Assistance	7.2	4.8	3.8	4.9	3.7
Information, Culture and Recreation	8.6	6.7	-1.6	-1.5	3.7
Accommodation and Food Services	-0.6	-1.9	10.0	1.6	-1.1
Public Administration	-0.2	0.8	5.8	4.0	0.4
Other Services	-3.6	0.3	0.2	6.5	-1.9
Total Employment	3.2	1.9	1.8	2.9	1.7

Note: Industrial groupings based on North American Industry Classification System (NAICS).

Source: Statistics Canada.

TABLE 32

ONTARIO, EMPLOYMENT LEVEL BY ECONOMIC REGIONS, 1994-2004

	(Thousands)					
	1994	1995	1996	1997	1998	1999
Ontario	5,009	5,093	5,158	5,283	5,451	5,633
Region:*						
East	698	672	673	684	721	747
Ottawa (510)	517	497	505	512	538	550
Kingston-Pembroke (515)	181	175	168	172	183	197
Greater Toronto Area (530)¹	2,103	2,201	2,237	2,336	2,409	2,482
Central	1,164	1,180	1,199	1,220	1,267	1,310
Muskoka-Kawarths (520)	132	144	145	146	148	156
Kitchener-Waterloo-Barrie (540)	470	466	475	493	512	541
Hamilton-Niagara Peninsula (550)	562	571	579	581	607	613
Southwest	703	681	695	701	710	740
London (560)	287	282	277	281	285	298
Windsor-Sarnia (570)	274	270	277	276	283	293
Stratford-Bruce Peninsula (580)	143	129	141	144	142	148
North	341	359	354	343	344	354
Northeast (590)	234	246	245	239	240	245
Northwest (595)	107	113	109	104	104	110

TABLE 32 (CONTINUED)

	(Thousands)				
	2000	2001	2002	2003	2004
Ontario	5,814	5,926	6,035	6,208	6,316
Region:*					
East	757	784	794	816	819
Ottawa (510)	571	592	596	617	614
Kingston-Pembroke (515)	186	192	199	199	205
Greater Toronto Area (530)¹	2,580	2,665	2,722	2,798	2,853
Central	1,358	1,363	1,388	1,450	1,477
Muskoka-Kawarths (520)	160	152	155	175	179
Kitchener-Waterloo-Barrie (540)	550	559	579	596	611
Hamilton-Niagara Peninsula (550)	648	651	654	679	686
Southwest	760	755	765	775	803
London (560)	307	305	308	317	331
Windsor-Sarnia (570)	301	302	307	308	308
Stratford-Bruce Peninsula (580)	152	148	151	150	164
North	359	359	365	369	365
Northeast (590)	248	251	251	253	254
Northwest (595)	111	108	113	116	111

* Standard deviations vary significantly across regions, decreasing as the size of the region increases.

Notes:

All figures are average annual employment levels.

1. Economic region of Toronto (530) closely matches the GTA, except that it excludes the City of Burlington.

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 33

ONTARIO, EMPLOYMENT LEVEL BY INDUSTRY FOR ECONOMIC REGIONS, 2004

(Thousands)

	All Industries	Agriculture	Resources ¹	Manufacturing
Ontario	6,316	79	35	1,109
Region:				
East	819	12	3	83
Ottawa (510)	614	9	...	57
Kingston-Pembroke (515)	205	3	3	26
Greater Toronto Area (530)	2,853	8	3	515
Central	1,477	28	4	303
Muskoka-Kawarths (520)	179	4	...	25
Kitchener-Waterloo-Barrie (540)	611	10	...	143
Hamilton-Niagara Peninsula (550)	686	14	2	135
Southwest	803	28	2	172
London (560)	331	10	...	61
Windsor-Sarnia (570)	308	7	...	76
Stratford-Bruce Peninsula (580)	164	10	...	35
North	365	3	22	35
Northeast (590)	254	2	17	21
Northwest (595)	111	...	5	14

TABLE 33 (CONTINUED)

(Thousands)

	Construction	Distributive ²	Finance, Prof. & Mgmt. ³	Info. Culture & Recreation ⁴
Ontario	368	598	1,143	304
Region:				
East	44	61	127	36
Ottawa (510)	30	44	103	31
Kingston-Pembroke (515)	14	16	24	5
Greater Toronto Area (530)	156	300	665	158
Central	98	127	209	61
Muskoka-Kawarths (520)	16	16	25	7
Kitchener-Waterloo-Barrie (540)	45	51	85	18
Hamilton-Niagara Peninsula (550)	37	60	98	36
Southwest	48	76	100	35
London (560)	19	33	51	11
Windsor-Sarnia (570)	17	23	35	17
Stratford-Bruce Peninsula (580)	12	19	14	7
North	22	35	41	14
Northeast (590)	14	23	29	10
Northwest (595)	7	12	12	4

TABLE 33 (CONTINUED)			(Thousands)
	Retail Trade	Personal Services ⁵	Education
Ontario	724	622	390
Region:			
East	94	89	54
Ottawa (510)	66	61	38
Kingston-Pembroke (515)	28	28	16
Greater Toronto Area (530)	308	253	160
Central	181	153	103
Muskoka-Kawarthas (520)	26	18	12
Kitchener-Waterloo-Barrie (540)	70	58	43
Hamilton-Niagara Peninsula (550)	85	77	47
Southwest	92	84	45
London (560)	38	33	21
Windsor-Sarnia (570)	35	34	17
Stratford-Bruce Peninsula (580)	19	17	7
North	49	43	27
Northeast (590)	36	29	19
Northwest (595)	13	14	8

TABLE 33 (CONTINUED)			(Thousands)
	Health & Soc. Assistance	Public Administration	
Ontario	636	310	
Region:			
East	92	124	
Ottawa (510)	62	110	
Kingston-Pembroke (515)	30	13	
Greater Toronto Area (530)	241	86	
Central	155	54	
Muskoka-Kawarthas (520)	24	6	
Kitchener-Waterloo-Barrie (540)	60	25	
Hamilton-Niagara Peninsula (550)	71	23	
Southwest	96	24	
London (560)	44	9	
Windsor-Sarnia (570)	33	11	
Stratford-Bruce Peninsula (580)	19	4	
North	52	23	
Northeast (590)	38	15	
Northwest (595)	14	7	

All figures are average annual employment levels.

Sub-regional figures may not add up to regional totals due to rounding.

Employment numbers under 1,500 are suppressed because they are statistically unreliable.

See standard deviation and GTA note for Table 32.

Industrial groupings based on North American Industry Classification System (NAICS).

Notes:

1. Includes Forestry, Fishing, Mining, Oil and Gas.
2. Includes Transportation and Warehousing, Utilities and Wholesale Trade.
3. Includes Finance, Insurance, Real Estate and Leasing; Management of Companies, Administrative and Support Services; and Professional, Scientific and Technical Services.
4. Information, Culture and Recreation includes industries such as Publishing, Motion Picture and Sound Recording, Broadcasting and Telecommunications, Information Services and Data Processing Services, Performing Arts, Spectator Sports and Related Industries, Heritage Institutions and Amusement, Gambling and Recreation.
5. Includes Accommodation and Food Services and Other Services (such as Repair and Maintenance, Personal and Laundry, Religious, Grant-making, Civic, Professional and Similar Organizations).

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 34**East**

Ottawa (510)	The united counties of Stormont, Dundas and Glengarry, Prescott and Russell, Leeds and Grenville, the county of Lanark and the Ottawa Division
Kingston-Pembroke (515)	The counties of Lennox and Addington, Hastings, Renfrew and Frontenac and the Prince Edward Division

Central

Muskoka-Kawarthas (520)	The counties of Northumberland, Peterborough, Haliburton, the Muskoka District Municipality and the Kawartha Lakes Division
Kitchener-Waterloo-Barrie (540)	The counties of Dufferin, Wellington and Simcoe and the Waterloo Regional Municipality
Hamilton-Niagara Peninsula (550)	The county of Brant, the Regional Municipalities of Niagara, Haldimand-Norfolk, the Hamilton Division and the City of Burlington in Halton Regional Municipality

Greater Toronto Area²

Toronto (530)	Toronto Division, the Regional Municipalities of Durham, York, Peel and Halton (excluding the City of Burlington)
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Southwest

London (560)	The counties of Oxford, Elgin and Middlesex
Windsor-Sarnia (570)	The counties of Lambton and Essex and the Chatham-Kent Division
Stratford-Bruce Peninsula (580)	The counties of Perth, Huron, Bruce and Grey

North

Northeast (590)	The districts of Nipissing, Parry Sound, Manitoulin, Sudbury, Timiskaming, Cochrane, Algoma and the Greater Sudbury Division
Northwest (595)	The districts of Thunder Bay, Rainy River and Kenora

Notes:

1. As defined by Statistics Canada, Standard Geographical Classification SGC 2001.
2. Economic Region 530 closely matches the GTA, except that it excludes the City of Burlington.

ANNEX VII

HOW TO PARTICIPATE IN THE 2006 PRE-BUDGET CONSULTATIONS

HOW TO PARTICIPATE IN THE 2006 PRE-BUDGET CONSULTATIONS

The Minister of Finance will be hosting pre-budget consultations with individuals, organizations, associations and other stakeholders across the province as part of the McGuinty government's ongoing dialogue with the citizens of Ontario.

In particular, the Minister of Finance is interested in hearing Ontarians' views regarding what more the government can do to ensure a productive economy and better services for people, while maintaining the plan to eliminate the deficit no later than 2008-09.

Information identifying the communities and locations that the Minister plans to visit will be posted at www.fin.gov.on.ca in November 2005. Individuals wishing to appear at one of these consultations can call toll-free, 1-800-263-7965 or 1-800-263-7776 TTY.

Below you will find additional information on how to participate in the 2006 pre-budget consultations.

WRITTEN SUBMISSIONS

Individuals and organizations can mail, e-mail or fax submissions directly to the Minister of Finance.

Mailing Address

The Honourable Dwight Duncan
Minister of Finance
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ON-LINE SUBMISSIONS

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